



## INDIA ECONOMIC UPDATE AND GOVERNMENT INITIATIVES FOR THE MANUFACTURING SECTORS

The Indian economy contracted sharply at 24% in Q1-FY2021 due to nationwide lockdowns in order to control the spread of COVID-19. The Manufacturing segment of the economy contracted severely by 40%, in which, the Automotive sector (contributing ~50% of Manufacturing GDP) had a decline of 75%.

### INDIAN MACROECONOMIC STATUS – COVID-19 AND LOCKDOWN IMPACT



#### Stocks Market

**36%**

*points gained by Sensex index during Lockdown  
(Sensex on Mar 25th was 28,535 and on Sept. 14th was 38,854)*



#### GDP

**23,9%**

*decrease in Q1-FY2021  
(April - June 2020)  
vis-à-vis Q4-FY 2020  
(January - March 2020)*

FitchRatings

S&P Global

#### GDP Projections FY2021 (Apr'20-Mar'21)

USA

-4,6

Europe

-9,0

India

-11,8

**Rebound of 10% expected in FY 2022**

### INITIATIVES OF THE GOVERNMENT OF INDIA

From Manufacturing sector's structure perspective, there **exists strong import dependency in key sub-sectors** that not only increases B2B and B2C price pressures, but has also created a **critical deficit of a sustainable local value-chain in the Manufacturing industry** – for example the Automotive industry imported ~2 bln EUR worth of electrical and electronic components from China, South Korea and Europe in FY2019.

Acknowledging the need for concrete implementation steps, the Government of India is planning a **Production Linked Incentives scheme worth ~20 bln EUR** for automobile manufacturers, solar panel makers, and specialty steel to consumer appliance and specialized pharmaceutical companies. This scheme is expected to be similar to the **6.5 bln EUR Production Linked Incentive scheme in Large Scale Electronics Manufacturing sector** that was implemented in April 2020.



## 6.5 BLN EUR PRODUCTION LINKED INCENTIVE (PLI) SCHEME LARGE SCALE ELECTRONIC MANUFACTURERS

### INCENTIVES



4-6% incentives  
for a period of 5 years  
(FY'2021-2025)

### TARGET SEGMENTS



- Mobile Phones  
- Specified Electronics  
Components

### APPLICABILITY



Applicable from  
**August 1<sup>st</sup>, 2020**

### BASE YEAR



**FY'2019-20**  
Base year for computation  
of incremental investment  
and incremental sales

### ELIGIBILITY



- **Incentives would be eligible in only one application per company:**
  - Incremental investment: investment made in India after the end of the base year as defined
  - Incremental sales of manufactured goods: sales of goods in the defined period (FY2020-25), deducting sales of goods in the base year
- Company should be engaged in manufacturing of goods in India

### THESE COMPANIES ARE ALREADY CONSIDERING BENEFITS

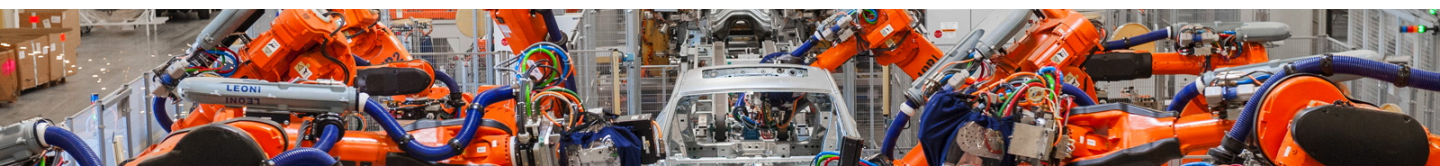
#### MOBILE PHONES



#### ELECTRONICS COMPONENTS



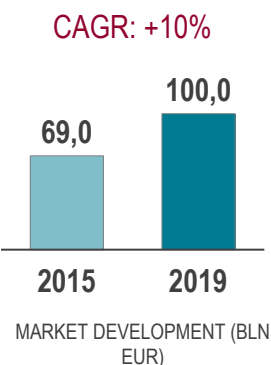
A 6.5 bln EUR production linked incentive scheme in the “Large Scale Electronics Manufacturing Sector” was implemented in April 2020.



## PRODUCTION LINKED INCENTIVES FOCUS SECTORAL INSIGHTS

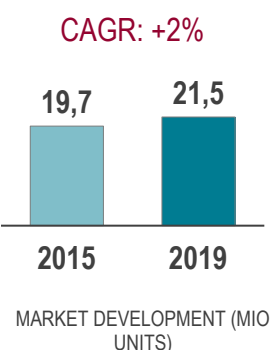
### STATUS AND OUTLOOK

EAC REFERENCES



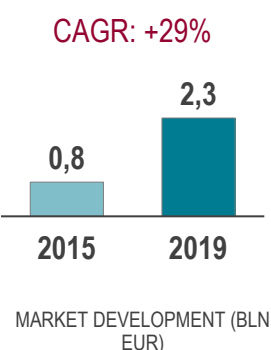
- India's electronics market stands at 100 bln EUR in FY'19 contributing ~2.5% to national GDP and has been adversely affected by COVID disrupting the supply chains
- Current trend is of shifting electronic industry operations to potential low-cost country including India (Wistron, Samsung)
- Government offering attractive incentives (USD 5 bln), schemes to attract investments to make India a global electronics hub

**OUTLOOK:** Domestic value addition expected to grow from 15-20% to 35-40% for Mobile Phones and 45-50% for electronic components (semi-conductors, electromechanical active & passive components)



- Vehicle sales had grown at a CAGR of 7.4% in FY2015-19 period, then declined Y-o-Y at 18% in FY2020 due to liquidity crisis, increased axle-load norms and BSVI transition 'wait-and-watch'
- Auto components industry grew at a CAGR of 13.5% in FY2016-19 period, and in FY2020 declined by 13.5% to 41.4 bln EUR
- Government and industry stakeholders' focus on increasing localization, especially for high import-dependent sub-segments such as electronics, and increase 'design in India'

**OUTLOOK:**  
'Consistent' market revival expected Q1-Q2, FY2021, with increased localized content and focus on 'asset-light' sales models

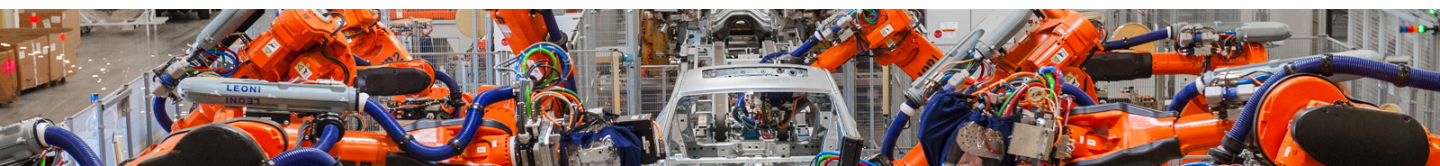


- Local value-chain limited to PV cells, modules manufacturing current capacity for PV Cells: 3 GW and modules: 8-10 GW p.a.
- High import dependence (85% of total market) wherein China has ~80% share of total solar imports
- Safeguard duty at 15% till 2021 on solar imports from China and Malaysia to protect local manufacturers
- Introduction of Manufacturing Linked Solar tenders by SECI<sup>1)</sup>

**OUTLOOK:**  
GoI targets to achieve 300 GW of solar power generation capacity by 2030 which in turn will drive domestic manufacturing







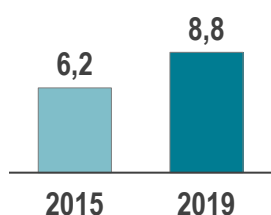
## PRODUCTION LINKED INCENTIVES FOCUS SECTORAL INSIGHTS

### STATUS AND OUTLOOK

#### CONSUMER APPLIANCES

EAC REFERENCES

CAGR: +9%



MARKET DEVELOPMENT  
(BLN EUR)

- Currently has ~45% localization-imports higher in case of products such as TV panels and high-end air conditioners
- Govt has scrapped custom duty on open cell TV panel from 5% to 0% to reduce manufacturing cost
- 51% FDI allowed in multi brand and 100% in single brand retail
- PLI incentives expected to be provided for air conditioners and TV sets manufacturing, where only some level of manufacturing exists in the country

**OUTLOOK:** Development of PLI incentives is critical to ensure development of complete ecosystem around the products locally, which in turn will also make the products affordable

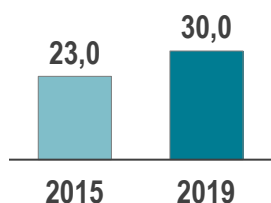
BRITA

B/S/H/

Melitta

#### PHARMACEUTICAL PRODUCTS

CAGR: +7%



MARKET DEVELOPMENT  
(MIO UNITS)

- Globally industry is 3<sup>rd</sup> largest by volume and 14<sup>th</sup> largest by value
- India imports >60% of its bulk drug requirements from China
- PLI incentive to be provided on select 41 products for 6 years
- Fermentation-based products, incentive for FY'24 to FY'27 would be 20%, FY'28 would be 15% and for FY'29 would be 5%
- Chemical synthesis-based products, incentives would be 10% for FY'23 to FY'28

**OUTLOOK:** Development of manufacturing competency in critical APIs and intermediates which would impact positively on formulation also

gsk  
GlaxoSmithKline

Roche

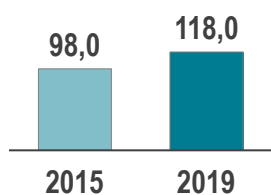
MERCK

orthomol

RIEMSER

#### TEXTILE

CAGR: +5%



MARKET DEVELOPMENT  
(BLN EUR)

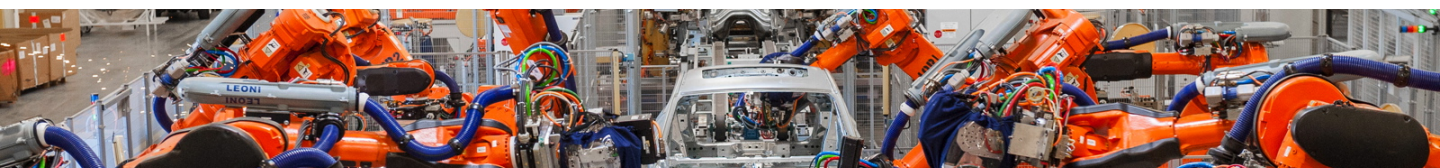
- India's Textile market stands at 118 bln EUR in FY'19 contributing ~2.3% to national GDP and 13% of India's export earnings
- Presence of complete value chain from fibre to apparel
- Abundant availability of the raw material – Largest producer of cotton and jute and 2<sup>nd</sup> largest producer of polyester, silk and fibre
- PLI incentives to be provided on the production of ~40 items with high export potential

**OUTLOOK:** Policy initiative to increase export potential and reposition India as major synthetic fibre-based apparel producer

Lenzing

HEYtex

VERSEIDAG



## EAC – YOUR PARTNER OF CHOICE FOR THE INDIAN MARKET

EAC has been advising German and European companies on Indian market strategies over the past 25 years, and we like to inform you more about 'Production Linked Incentives Scheme' and outline the status and outlook of key sectors these initiatives target. Please feel free to connect with us for customized insights on key strategic opportunities that arise for your businesses regarding these initiatives.

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