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Tracking the progress of GoI incentive scheme

Incentive disbursements may stand at ~11% of the outlay by FY2025

August 2024

Overview

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Of the total expected capex of ~Rs. 4 trillion, 30-35% had been invested as of May 2024. However, major sectors with huge capex deployment are yet to start commercial production because of long gestation periods.

~11% of the incentive scheme outlay will be utilised by FY2025. The GoI has been adjusting allocations, refining schemes, inviting applications, to maximise the utilisation of outlay.

In FY2022, the Government of India (GoI) had announced the Production-Linked Incentive (PLI) scheme and subsequently Design-Linked Incentive (DLI) scheme in 14 sectors to boost manufacturing and exports, reduce imports, attract investments and technology, to make Indian manufacturers globally competitive. ICRA expects ~11% of the outlay to be utilised for PLI/DLI incentives by end-FY2025. This note analyses the sector-specific success of the scheme.

Capex

- Of the total expected capex of close to Rs. 4 trillion to be incurred by corporates under the PLI/DLI (*to be called Incentive linked schemes henceforth in report*), Rs. 1.28 trillion had been invested as of May 2024, which is 30-35% of the total estimated capex.

Incremental Sales/Production

- Incentives under most of the sectors are linked to incremental sales/production.
- Of the expected incremental sales/production through the Incentive linked scheme of Rs. 35-40 trillion, the current capex deployment has led to incremental sales of around Rs. 10.8 trillion (as of May 2024), which is 25-30% of the total incremental sales anticipated from the incentive scheme.

Incentives disbursement

- Progress in manufacturing is visible in sectors like pharma, mobile phones, food products benefiting from the disbursement of incentives. However, the disbursements are minimal in sectors like solar PV modules, auto and steel, which have higher capital deployment as on date compared to other sectors, because of longer gestation period to start commercial operations.

The GoI has been adjusting allocations, refining schemes, inviting applications to enhance efficiency and increase the incentive disbursements across all sectors. Despite this, only 11% of the outlay (~Rs. 326 billion) is expected to be utilised by FY2025, based on Budget Estimates (BE). To maximise the utilisation, the GoI is planning to introduce additional incentive scheme for new sectors like toys, leather, footwear, which could aim to attract anchor investors to these fields.

#For calculation of incentives, incremental sales/production is calculated as sales/production over a given period minus the sales/production in the base year

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Thank You!