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Edit: Interactive Notion (Approved)

Organisation: ELCINA

Journalist: NILOY BANERJEE | CONSULTANT EDITOR | BISinfotech

1. What are ESDM sector's key expectations from the Union Budget 2020?

Indian Electronics Manufacturers are facing 10-12% disability in comparison with their international counterparts such as China, Vietnam etc. This is well identified disability and has been acknowledged by the government in various policy documents. ELCINA expects that In this Budget, the Government will address this disability and support the ESDM sector through the following measures:

1. Incentives for Capital Investment in Electronics Manufacturing

Scheme in line with the erstwhile MSIPS is required for Components (including Semiconductors), PCB's & ATMP of Semiconductors by providing direct investment subsidy. It is important that the Scheme, which is required for enhancing competitiveness, requires a simple implementation process which is done through a professional Financial Institution. It is also recommended that MSME's are eligible for higher benefits under this Scheme.

2. Electronic Component Manufacturing Fund:

A dedicated fund for the development of Component Manufacturing ecosystem should be floated on the lines of a Venture fund with Income Tax breaks on its earnings. This will provide low cost capital for high value added electronics manufacturers who face high finance cost disability vis-à-vis their global competitors.

3. EMC Scheme:

Promote Electronic Manufacturing Clusters by inviting State Governments to take ownership of smooth operation and success of Clusters; provide Plug & Play facilities to the interested manufacturers on attractive Lease agreements; reduce investment in land and infra and emphasis on sale of land; manufacturing is incentivized by availability of industrial land with key infrastructure facilities for manufacturing at a low operational cost and the Cluster

4. Opex subsidy/ Working Capital subsidy:

This provision was introduced under the MSIPS Scheme vide notification of 3rd August 2015 for high value added electronics segments such as semiconductor wafering, logic microprocessors, IC's and components such as PCB, discrete semiconductors fab, Power Semiconductors Fab and ATMP. However it was never implemented.

It is recommended this Production Subsidy (OPEX) should be provided to Electronic Component manufacturers by giving 6% of consignment value to component manufacturers and/or by allowing retention of CGST for a period of 5 years. This should be done on automatic basis with one time approval of the project by MeitY. The subsidy of 6% should be available for a period of 5 years and further at 3% for next 5years.

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2. Has NPE (National Policy on Electronics) 2.0 boosted investments and R&D in the electronics industry?

NPE 2019 is a progressive document and a worthy successor of NPE 2012. Its success depends on the ensuing Schemes which are awaited and their implementation.

The Policy takes forward the initiatives of NPE 2012 and aims to promote domestic manufacturing and export in the entire value-chain of ESDM sector. It is also expected to give a thrust to economic development by achieving a manufacturing turnover of USD 400 billion (approximately INR 26,00,000 crore) by 2025 and generating 10 million additional jobs.

Industry expects that this policy would address the concerns of domestic manufacturers and overcome the gaps experienced in the NPE 2012. While National Policy on Electronics 2012 (NPE 12) contained a wide range of promotional schemes for investment promotion, infrastructure creation, (MSIPS & EMC), skill development, promoting R&D (EDF) and more, it was constrained by procedural complications. The policy experienced a lack of tenacity in the implementation of its key schemes and sporadic flow of funds to the applicants with limited success.

Various schemes as mentioned under NPE 2019 are under active deliberations and need to see the light of the day. The efficiency and effectiveness of these schemes will define the increase in investments and other parameters of its success.

3. NPE sets an ambitious target of creating a US\$ 400 billion electronics manufacturing industry by 2025. How feasible do you think this target is and what should be the plan to achieve this?

As per the NPE document Indian Electronics Industry is of USD 127 Bn which is met by the domestic production of USD 70 Bn and Imports of USD 57 Bn. The value addition in domestic manufacturing is approximately 15-20 %. This means if we want to become self-reliant in the sector, we need to have a CAGR of around 37%. This rate of growth cannot be achieved and in any case the government has to announce the NPE 2019 Schemes quickly as well as provide the budgets required for their implementation.

4. How critical is MSIPS to get US\$ 400 billion electronics manufacturing industry?

M-SIPS scheme provides a capital subsidy of 25% for DTA and 20 per cent in SEZ for units engaged in electronics manufacturing. The scheme was launched to attract investments in Electronic manufacturing for incentivizing Plant and Machinery. The incentives are provided on a reimbursement basis. The scheme ran from 2012 to 2018 and no new applications are entertained after that.

A Capital Investment Promotion Scheme such as M-SIPS is an important tool for attracting investments in electronics manufacturing. ELCINA strongly believes that such a Scheme must be continued for next 5 years atleast specially for high value addition segments of ESDM sector. M-SIPS reduces the cost of capital and encourages manufacturers to invest who make a long term

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commitment and once they begin operations, the government recovers their subsidies within no time and many times over.

The present domestic manufacturing of electronics components is around USD 10 Bn and we need to achieve atleast 25-30% growth annually to make a dent in the import bill and huge import dependence.