

Our Views

The new manufacturing policy – A novel and outcome-oriented approach

Over the past couple of months, the Government has been steadily announcing structural reforms across sectors to boost investments and domestic growth. The recent policy measures announced by Government to promote manufacturing of bulk drugs and electronics have demonstrated a completely new approach to policy making. In alignment with the umbrella “Atmanirbhar Bharat” strategy to reduce India’s dependence on imports, the schemes have been designed keeping in mind the practicality of implementation and a clear focus on outcomes.

India imports ~70% of its Active Pharmaceutical Ingredient (API) requirements from China due to latter’s cost competencies. Also, electronics hardware consumption is expected to rise to app USD 400bn by 2025 which is currently being met largely through imports. The disruption in supply chains caused by the COVID pandemic has been a wake-up call to ensure national drug security by scaling up domestic manufacturing.

To give a fillip to the manufacturing sector, for the first time ever that a production-linked incentive scheme has been introduced which directly links incentive to incremental sales rather than doling it out as a plain vanilla subsidy on the capital investment or project cost. Under the scheme for domestic manufacturing of key starting materials (KSMs) and APIs, the incentive would range from 5%-20% on incremental sales over the base of FY20. Similarly, for manufacturing of electronics the incentive would be range from 4%-6%. Essentially, this would put the onus on manufacturer to achieve tangible results in terms of turnover to avail the incentives. Towards this, they would necessarily have to upgrade and scale their manufacturing competencies.

Further, the scheme has been designed to promote competition among players by limiting the number of eligible applicants within each of the segments. The initial eligibility for the scheme is dependent on the FY20 turnover of the applicant. Once the scheme comes into force, to be eligible for disbursement of incentive in each of the assessment years, the applicants must meet requirements of threshold cumulative incremental investments and sales over the base year. Determining eligibility on a continual basis based on incremental investment and sales, ensures that only the ones who are successfully able to invest, perform and produce will be entitled to receive the reimbursements. If an applicant fails to meet the criteria in any given year, it will not be eligible for incentive for that particular year. However, if it meets the eligibility criteria in any subsequent year, it can claim the incentive. The scheme thus incentivizes a sustainable and scalable growth trajectory for the players. Furthermore, the scheme would differentiate better performers from the poorer ones by appropriating any unallocated portion of the annual financial outlay on account of underperformance by any of the players to the remaining eligible applicants in proportion to their performance under the scheme. This will essentially incentivize the more serious players and help achieve faster results.

Additionally, the Government will develop the infrastructure by incurring capital costs of setting up bulk drug parks, electronics manufacturing clusters and common facility centers. This would reduce manufacturing costs for the players vis-à-vis their existing facilities and incentivize them to grow. Lastly, the entire application, evaluation, and disbursement process for the incentive has been articulated in a detailed and time bound manner indicating efficiency of implementation.

In so much as this is a novel approach to policy making, it is of paramount importance that the program be executed in a time bound manner for India to have a competitive lead over other countries which are themselves proposing to ramp up manufacturing capabilities to reduce their dependency on China. Furthermore, once the incentives are put in place, the Government should take active steps to protect the domestic industries from potential dumping activity by China.

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