



PHD House, 4th Floor, Ramakrishna Dalmia Wing
4/2, Siri Institutional Area, August Kranti Marg, New Delhi – 110016,
Tel# 9599665859 E-mail: dg@mait.com □ Website: <http://www.mait.com>

Ref.No.MAIT/PY/2273

July 10, 2023

Shri Amitesh Kumar Sinha, IRAS
Jt. Secretary
Ministry of Electronics & IT

Subject: - Industry concerns & recommendations/request for clarity on Accounting related matters pertaining to PLI 2.0

Respected Sir,

Greetings from MAIT!

This bears reference to the ongoing discussions pertaining to PLI 2.0 Guidelines. We have been reached by the industry where they have raised certain concerns relating to accounting issues which are listed as under: -

Issue Number 1: - Lack of clarity on the basis of incentive computation

- To ensure that participating companies have clarity of treatment from the very beginning, it is important for the guidelines to elaborate the basis of incentive computation i.e. would it be based on invoice value, or would it rather consider revenue recognition. If the same is not clarified unequivocally, participating companies will face many issues, including incentive computation, receiving auditor certificates, among others.
- Industry recommends that Invoice value be considered for this. As per guidelines, net sales – as well as revenue from eligible products – **need to be computed based on invoices issued** and not revenue recognized in the same financial year. Going by the instances under **PLI 1.0, a keen point of debate has been consideration of revenue recognition within the financial year as the basis for incentive computation, and not invoices issued.**
- Since this is not mentioned in the guidelines, we should ensure that the treatment is clarified under the ambit of 2.0 Guidelines. For brands that may have deferred revenues in invoices, due to any reason, this practice will erode ease of doing business.
- Also, it is worth considering that all other incentives, including the state incentives, base incentive computation on invoices and not the year in which recognition of revenue occurs, which is purely a function of the accounting standards.

Why Invoice value should ideally be considered for Incentive calculation and payout under PLI 2.0.

- Invoice value (Minus Credit Note and Discount) already mentioned which makes the calculation simple for Net Sales of the particular period.
- The invoice value should match from Sales Register and GST Returns which will be needed to verify the claim by PMA.

- All the Net Sales invoices will be considered and incentivise in total for that particular period at one go and all type of verification will be easy to check by PMA and Auditor .

Considering Revenue Recognition as the base to calculate incentives will create a lot of challenges:

- Net Sales for incentive will be difficult to match with Sales Register/GST Return
- Considering month end sales, Incentive will be calculated partially in that particular period and some of the part of incentive will fall under next period of incentive claims.
- This will create a lot of challenges at Auditor and PMA to verify the sales of incentive claim.
- This will open up new challenge for Incremental sales criteria calculation for the year.
- PMA and Auditor will require to verify two period for Sales incentive calculation.

MAIT's Recommendation:

The objective of revenue recognition is a subject of taxation, while the objective of PLI is to promote manufacturing and hence manufacturing output is measured by invoicing (GST). **Hence the yardstick for measurement for PLI should be invoicing and not revenue recognition.**

Issue No. 2: - Calculation Challenges faced by Industry

Kindly refer to an example of calculation challenge as shared by industry: -

- (i) Applicant A makes application for Laptops and the manufacturing sales of laptops in base year was Rs.100 crores. In the Year-1 manufacturing sales of Laptops is Rs. 2000 crore out of which PCBA has been carried on sales of Rs.1100 crore.

In such case, for the purpose of eligibility threshold criteria of incremental sales, incremental sales of Rs.1,900 crores shall be considered.

Industry understanding: - For incentive calculation, incentive shall be given on the sales of target segment goods manufactured in India (Clause 5.1) which is Rs.1100 cr in the above example. **We request MeitY confirmation of the above industry understanding as once industry meets eligibility criteria, industry should get incentive on all the sales which meets the eligibility criteria.**

- (ii) In the same example, in Year-2, total manufacturing sales is Rs.3,000 crores out of which PCBA was carried on sales of Rs.2,500 crores. Further, one component was localized during the year and out of sales of Rs.2,500 crore, localized component was used in sales of Rs.500 crores.

In such case, for the purpose of eligibility threshold criteria of incremental sales, incremental sales of Rs.2,900 crores shall be considered.

Industry Understanding: - For incentive calculation, incentive shall be given on the sales of target segment goods manufactured in India (Clause 5.1) which is Rs.2500 cr in the above example. Also, additional incentives on Rs.500 crores shall be given. **We request MeitY confirmation of the above industry understanding as once the industry meets eligibility criteria, industry should get incentive on all the sales which meets the eligibility criteria.**

Kindly also refer to the below table where industry understands that incentive will be calculated on 275 in year-1 and 360 in year-2:

	Base Yr				PLI			
	Y0	Y1	Y2	Y3	Y4	Y5	Y6	
PLI Eligible		1275	1360	2730	5336	6566	8870	
Not eligible for PLI	105	105	100	95	90	85	80	
Total Manufacturing	105	1380	1460	2825	5426	6651	8950	

Y1: Incremental Sales for Min Threshold = Rs.1275 cr (Rs.1380 cr-Rs.105 Cr). Incentive should be calculated on Rs 1275 cr as it is PLI eligible

Y2: Incremental Sales for Min Threshold = Rs.1355 cr (Rs.1460 cr-Rs.105 Cr). Incentive should be calculated on Rs 1360 cr as it is PLI eligible

Y3: Incremental Sales for Min Threshold = Rs.2720 cr (Rs.2825 cr-Rs.105 Cr). Incentive should be calculated on Rs.2730 cr as it is PLI eligible

Y4: Incremental Sales for Min Threshold = Rs.5321 cr (Rs.5426 cr-Rs.105 Cr). Incentive should be calculated on Rs.5336 cr as it is PLI eligible

Y5: Incremental Sales for Min Threshold = Rs.6546 cr (Rs.6651 cr-Rs.105 Cr). Incentive should be calculated on Rs.6566 cr as it is PLI eligible

Y6: Incremental Sales for Min Threshold = Rs.8845 cr (Rs.8950 cr-Rs.105 Cr). Incentive should be calculated on Rs.8870 cr as it is PLI eligible

Issue No. 3:- Request for clarity on the cost of Pre-loaded Software inclusion in the sales consideration

Product revenue consists of hardware and third-party software license and peripherals sales. Such software is embedded in the product and sales made to customers does not identify sale of products / software separately. Since the sale of product is along with pre-loaded software, the invoices raised are bundled and find no separate identification / recognition / break-down of revenue towards the respective items in the financial statements as well. Based on this accounting also undertaken by a Company, in line with Accounting Principles, which is duly vetted and certified by the statutory auditors.

MAIT Recommendation: Pre-loaded software is an integral part of an IT product and holds its own value addition. Without such software, a device cannot render any useful service. Against this premise and for the ease of computation, pre-loaded software must be included in the invoice value.

Issue No. 4: - Request for flexibility in PLI 2.0 for a “Domestic Category Applicant” to upscale to Hybrid Category Manufacturer,” Global Category Applicant” to downscale to Hybrid Category, & Hybrid Category Applicant to upscale or downscale to Global Category & Domestic category as per the case.

MAIT Recommends providing flexibility for Applicants to either upscale or downscale to Hybrid category which shall help the applicants who will be able to adjust better in line with the market scenario.

Why it is critical to give the flexibility to Domestic Category Applicants to upscale to Hybrid category under PLI 2.0

In the IT H/w space most of the existing Indian companies are all small in terms of their market share. Through the PLI scheme (that facilitates competitiveness of local manufacturing), they aspire to grow to the critical mass required to become big brands tomorrow.

As their existing market share is small, they are able to commit upfront only lower projections and hence apply under the "Domestic Category" that prescribes lower volume thresholds.

While all of them may not succeed in reaching high volumes in this fiercely competitive IT H/w market, the few Indian companies who do, will then need to migrate to "Hybrid Category" to continue enjoying the PLI support to sustain their manufacturing competitiveness for the higher volumes that they now command.

Hence, we earnestly request you to extend the facility for "Domestic Category" applicants to upscale to the higher Category.

We request you to kindly consider the above requests and provide clarity to the industry. Last but not least, **MAIT requests for an extension of 2-3 weeks for applying post the issuance of PLI Guidelines so that the internal teams of the potential applicants have sufficient time to go through the final guidelines and decide.**

Warm regards,


Col Suhail Zaidi (Retd)
Director General