

## **Impact of the Production Linked Incentive Schemes by the government of India on the growth of the manufacturing sector**

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### **ABSTRACT**

*India's manufacturing sector has lagged behind the growth of the services sector for decades. For the economy to become a \$5 trillion economy by 2047, it is imperative that the manufacturing sector grows at a faster rate than the service sector or at least at the same. For development to be achieved, the contribution of the agricultural sector to GDP and the workforce dependent on this sector also has to decline. This should be accompanied by a commensurate increase in the secondary and tertiary sector. This paper analyses the impact of the introduction of the Production Linked Incentive (PLI) Scheme on achieving greater investment by the private sector to ensure a robust and growing manufacturing sector. It is important to emphasise on this sector as it would provide jobs and incomes for a large number of independent workforce, thus, taking advantage of the demographic dividend that India is experiencing. Out of the 14 sectors that the PLI scheme was allowed, the best performance has been in the electronics sector followed by the pharmaceutical sector. The scheme encourages foreign direct investment (FDI) and enhances domestic manufacturing capacity, adding to the CapEx from the private sector. Analysis has indicated that both private and public CapEx would lead to higher GDP growth.*

**Keywords:** Base Year, Domestic Value Addition, Employment Generation, Financial Outlay, Foreign Direct Investment, Initial Commitment, Incremental Sales, Production Linked Incentive Scheme

### **Introduction**

The Indian economy in recent years has been experiencing strong services industrial growth but a lagged manufacturing sector growth. Theories on growth and development have indicated that a developed economy has to move from the agricultural sector to the secondary sector and finally to the tertiary sector in terms of their contribution to GDP and numbers of workforce that they

support. Yet, India is a peculiar case. Over the years, the contribution of the agricultural sector has declined but this has instead led to an increase in the tertiary sector share. The manufacturing sector has not grown to the same extent. In spite of 76 years of independence, 45.8% of the workforce was still dependent on the agricultural sector in 2023. India is currently facing a “demographic dividend” which means that the percentage of independent workforce is much higher than the dependent workforce. China took advantage of this stage by entering into the world’s global value chain. The result was a phenomenal growth in its GDP. India needs to take advantage of this situation and one of the ways is to emphasise on the manufacturing sector.

### **Research Gap and Methodology**

The paper analyses the Production Linked Incentive schemes adopted by the government of India in 2020 to increase FDI and simultaneously act as an incentive to enhance domestic investment. The government is not in a position to provide alone the investment required for the economy to reach \$32 trillion by 2047, it requires the private sector to also invest in the economy. The scheme that has been announced is a form of incentive for foreign firms to set up bases in India, leading to greater linkages in the system and achieving macroeconomic goals. This paper researches the sectors that have benefited from these schemes and the impact that it has had on the secondary sector.

The methodology used is a mixed method where both quantitative and qualitative data has been applied. The data used is from authentic secondary sources. This is then substantiated by quantitative analysis.

### **Indian Economy at a Glance**

According to the World Bank’s June Global Economic Prospects Report, the global economy is set to slow to its worst pace since 2008.<sup>1</sup> As growth forecasts have been cut for more than 70% of economies, global growth is projected to slow to 2.3 percent in 2025, nearly half a percentage point lower than the rate expected at the start of the year. Experts attribute the slowdown to rising trade barriers, heightened geopolitical tensions and policy uncertainties.

The South Asian Region, in particular, has seen economic activity decelerate to 5.8 percent even after an unexpected weak growth of 6 percent in 2024. India’s forecasted growth at 6.4%, the world’s fastest growing, is the only driver of the region.

Despite the global slowdown, India has remained resilient, becoming the 4th largest economy in 2025. This has been driven by increasing exports, increasing FDI inflows and reduced inflation.

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<sup>1</sup> “Global Economic Prospects.” *World Bank*, [www.worldbank.org/en/publication/global-economic-prospects](http://www.worldbank.org/en/publication/global-economic-prospects).

Over the last decade, India's total exports increased by 76% and in FY 24-25, they touched a record high of \$820.93 billion.<sup>2</sup> Similarly, Foreign Direct Investment Inflows in FY 2024-25 reached a 3-year high of \$81 billion. This success has been influenced by consistent domestic demand and the government's "Make in India" push.

In the Union Budget 2025-2026, the government announced the launch of the National Manufacturing Mission and made clear the government's shift in priority towards the industrial sector. Experts widely agree that India is now uniquely positioned to become a global manufacturing hub.

### **Share of Manufacturing Sector**

While India's economy is dominated by the services sector, the manufacturing sector occupied 15% of GDP in Q4 of FY 24-25, up by 1% from FY 23-24. Though this is well behind the government's aim of 25%, it is poised to reach USD 1 trillion by FY 25-26.<sup>3</sup> With uneasy trade relations and the imposition of heavy American tariffs on China, India has been positioning itself as an alternative manufacturing destination for foreign firms. The government has launched many measures including a single window clearance system, reform in labour laws and an expansion of Dedicated Freight Corridors (DFCs).

This has so far resulted in Indian exports hitting USD 778.21 billion in FY 2023-24 and FDI in manufacturing growing by 18% in FY 24-25, reaching USD 19.04 billion compared to USD 16.12 billion in FY 23-24. This growth has largely been attributed to the Production Linked Incentive Schemes (PLIs).<sup>4</sup>

### **PLI Scheme Structure**

The pandemic showed the overdependence of many countries on a single country for certain products, revealing weaknesses in the supply chain. Setting its sights on becoming the key intermediary missing in the supply chain, the government launched PLIs to boost domestic manufacturing. The PLIs aim to enhance production capacity, reduce dependence on foreign products by increasing exports and generate large-scale employment. They provide eligible manufacturing companies incentives ranging from 4% to 6% on incremental sales over the base

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<sup>2</sup> *PIB Headquarters*. [www.pib.gov.in/PressNoteDetails.aspx?NoteId=154660&ModuleId=3](http://www.pib.gov.in/PressNoteDetails.aspx?NoteId=154660&ModuleId=3).

<sup>3</sup> "Manufacturing Industries in India and Its Growth | IBEF." *India Brand Equity Foundation*, [www.ibef.org/industry/manufacturing-sector-india](http://www.ibef.org/industry/manufacturing-sector-india).

<sup>4</sup> Mathew, Joe, and Joe Mathew. "PLI Scheme Powers India's Manufacturing Boom With ₹1.61 Lakh Crore Investment and Soaring Exports." *Fortune India*, 22 Mar. 2025, [www.fortuneindia.com/economy/pli-scheme-powers-indias-manufacturing-boom-with-161-lakh-crore-investment-and-soaring-exports/121342](http://www.fortuneindia.com/economy/pli-scheme-powers-indias-manufacturing-boom-with-161-lakh-crore-investment-and-soaring-exports/121342)

year of 2019-20 for a 4-6 year period.<sup>5</sup> It acts as a subsidy being provided by direct payment for domestically manufactured goods. That is, as companies expand their manufacturing from the base year, governments provide monetary incentives linked to the percentage of additional revenue generated by these companies.

Sectors	Implementing Ministry/Department	Approved Financial Outlay over five-year period (INR crore)
Advance Chemistry Cell (ACC) Battery	Department of Heavy Industries	18,100
Electronics/Technology Products	Ministry of Electronics and Information Technology	5,000
Automobiles and Auto Components	Department of Heavy Industries	57,042
Pharmaceuticals Drugs	Department of Pharmaceuticals	15,000
Telecom and Networking Products	Department of Telecom	12,195
Textile Products: MMF Segment and Technical textiles	Ministry of Textiles	10,683
Food Products	Ministry of Food Processing Industries	10,900
High Efficiency Solar PV Modules	Ministry of New and Renewable Energy	4,500
White Goods (ACs and LEDs)	Department for Promotion of Industry and Internal Trade	6,238
Speciality Steel	Ministry of Steel	6,322
TOTAL		145,980

The PLI schemes currently target 14 sectors; (i) Mobile Manufacturing and Specified Electronic Components, (ii) Drug Intermediaries & Active Pharmaceutical Ingredients,

(iii) Manufacturing of Medical Devices (iv) Automobiles and Auto Components, (v) Pharmaceuticals Drugs, (vi) Specialty Steel, (vii) Telecom & Networking Products, (viii) Electronic/Technology Products, (ix) White Goods (ACs and LEDs), (x) Food Products, (xi) Textile Products: MMF segment and technical textiles, (xii) High efficiency solar PV modules, (xiii) Advanced Chemistry Cell (ACC) Battery, and (xiv) Drones and Drone Components. Initially, they targeted 10 sectors and had an outlay of 1.45 lakh crore.

<sup>5</sup><https://www.india-briefing.com/news/what-are-production-linked-incentive-schemes-and-how-will-they-build-up-indias-manufacturing-capacity-23538.html/>

### **PLI Scheme Provisions**

- The PLI scheme for Telecom and Networking products offers 4% to 7% incentive to companies producing greater than 20% to greater than 70% of production of base year.
- The PLI scheme for pharmaceutical drugs offers companies 5% to 20% on incremental sales from base year FY 2019-24.
- The PLI scheme for white goods proposes an incentive of 4% to 6% of incremental sales for the period of five years.
- The PLI scheme for Large Scale Mobiles and Electronic components offers an incentive of 4% to 6% on incremental sales over the base year FY 2019-20, for a period of five years.
- The PLI scheme for speciality steel offers incentives from 4% to 15% on incremental sales over the base year FY 2019-2020.
- The PLI scheme for Automobile and Auto Component Industry contains two components; the Champion OEM Incentive Scheme and Component Champion Incentive Scheme.
  - The Champion OEM Incentive Scheme offers incentives ranging from 13% to 16% of the determined sales value to companies achieving a sales volume between ₹2,000 crore and ₹4,000 crore.
  - The Component Champion Incentive Scheme offers incentives ranging from 8% to 11% of the determined sales value to companies achieving a sales volume between ₹250 crore and ₹750 crore.
- The PLI scheme for manufacturers of drone and drone components offers 20% of the value addition by such manufacturer. The minimum value addition is specified as 40% of net sales.
- The PLI scheme for man-made textiles and technical textiles offers companies 11% to 15% for achieving an incremental turnover from ₹200 crore to ₹1464.84 crore.
- The PLI scheme for food processing offers companies 4% to 10% of incremental sales over the base year.

- The PLI scheme for solar modules offers companies an incentive amount for creating 50% to 90% of Local Value Addition.

### **Performance of the scheme so far**

As on November 2024, investment of Rs. 1.61 lakh crore was realized which has resulted in incremental production/sales of over Rs. 14 lakh crore, employment generation of over 9.5 lakhs, and exports surpassing Rs. 5.31 lakh Crore with significant contributions from sectors such as

### **Large Scale Electronic Manufacturing, Pharmaceuticals, and Food Processing.**

#### Large Scale Electronic Manufacturing

- The electronics manufacturing sector transformed from a net importer to a net exporter of mobile phones. Domestic production grew from 5.8 crore units in 2014 to 33 crore units in 2023. Exports too increased to \$11 billion in FY23 from \$334 million in FY18 which was accompanied with a fall in imports to \$1.6 billion from \$3.6 billion.

#### Pharmaceutical Drugs

- India's position in the global pharmaceuticals market has been boosted by the PLI Scheme, making it the third-largest player by volume. Exports now account for 50% of production, and the country has reduced reliance on imports of active pharmaceutical ingredients from China. While the initial commitment was ₹3,938.57 crore, the actual realized investment reached ₹4,253.92 crore in December 2024 itself.

#### Automobiles and Auto components

- In the automobile sector, 12 companies were excluded for failing to meet initial investment targets. Until August 2025, many companies failed to design products that can meet the eligibility criteria of 50 per cent local value addition. A key reason is the import dependency on China for critical minerals like Lithium, Cobalt and Rare Earth Elements which has slowed down production.

#### Telecom and Networking Products

- In the telecom sector, only 17 of the 42 approved companies could claim incentives for FY 2022-23. Among the remaining 25 companies, 14 failed to meet investment targets, while 20 could not achieve the required incremental sales targets.

#### Other Schemes

- In the solar industry, eight of the 12 companies that signed up for PLI were unlikely to meet their targets as of December 2024, an analysis by the Ministry of Renewable Energy showed. However, the scheme has been able to attract 48,120 crores in committed

investments as of June 2025.<sup>6</sup> The steel sector too is lagging behind investment and production targets with 14 of the 58 projects approved for PLIs either withdrawn or removed due to lack of progress, according to official data.

Out of the promised 1.4 lakh crore, only 18,788<sup>7</sup> crore had been disbursed under the PLI scheme till April 1st, 2025. 94% of it had gone to the pharmaceutical and electronics manufacturing sector.

Sectors	Amount Disbursed	Approved Financial		Cumulative Investment (INR Crore)	Expected Investment (INR Crore)	Cumulative Employment (In numbers)	Expected Employment (In numbers)
		Outlay as of April 2024 (INR crore)					
Advance Chemistry Cell (ACC) Battery (Gestation Period)		18,100		-	45,000	-	2.7 lakhs
Large Scale Electronic Manufacturing	11,603	40,995		12,390	11,000	1,30,330	2 lakh
Automobiles and Auto Components	322	57,042		25,219	42,500	44,987	7.5 lakh
Pharmaceuticals Drugs	4,189.21	15,000		15,102	15,000	71,763	1 lakh
Telecom and Networking Products	331.86	12,195		4,081	3,000	29,117	45,000
Textile Products: MMF Segment and	54.5	10,683		7,343	11,000	2,59,164	7.5 lakh
Food Products	1,155.30	10,900		9,032	6,057	3.4 lakh	2.5 lakh
High Efficiency Solar PV Modules (Gestation Period)		24,000		48,000	93,041	38,500	30,000
White Goods (ACs and LEDs)	281.4	6,238		10,406	7,920	30,000	2 lakh
Speciality Steel	48	6,322		44,000	40,000	31,000	68,000

### Success of the Electronics Sector

According to the India Cellular and Electronics Association (ICEA), the scheme generated ₹1.04 lakh crore in tax revenue from just ₹5,800 crore in incentives. It has further made India a net exporter of smartphones. Exports have touched ₹2.87 lakh crore, making India the third-largest exporter globally and over 97% of the scheme’s production and export targets have already been met or exceeded. This has happened due to:-

#### 1. Early Adoption by Global Firms

Global manufacturers such as Foxconn, Samsung, Pegatron and Winston were the first to apply for the PLI scheme. It led to a demonstration effect that encouraged domestic players like Lava International, Dixon Technologies and Padgett Electronics to expand their manufacturing capacity.

#### 2. Complementary Policies at Central and State Level

Policies such as Digital India, India Semiconductor Mission and the National Policy on Electronics, 2019 have complemented the PLI Scheme. The launch of the Modified Electronics Manufacturing Clusters (EMC 2.0) and Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECES) have further helped establish electronic

<sup>6</sup> PIB Headquarters. (n.d.). <https://www.pib.gov.in/PressNoteDetails.aspx?NoteId=155082&ModuleId=3>

<sup>7</sup> [https://sansad.in/getFile/loksabhaquestions/annex/184/AU4909\\_667jDB.pdf?source=pqals](https://sansad.in/getFile/loksabhaquestions/annex/184/AU4909_667jDB.pdf?source=pqals)

manufacturing clusters. These are present in the states of Uttar Pradesh, Karnataka, Tamil Nadu and Andhra Pradesh, which have their own semiconductor and electronic manufacturing incentive schemes and policies.

### 3. Existing Supplier Ecosystem

India's electronics manufacturing services industry, established in Sriperumbudur, Noida, and Bengaluru, has facilitated the localisation of sub-components such as chargers, cables, and display assemblies. It has further evolved to value added manufacturing which includes printed circuit board (PCB) assembly, testing, packaging, design, and sub-component integration. This slow expansion of the domestic supplier ecosystem has been a pillar of success of the PLI scheme.

### 4. Investor-Friendly Framework

The rationalisation of the tariff structure to promote domestic manufacturing of electronic goods, removal of import duties (previously 2.5%) on USB cables and key electronic components and the 100% FDI Automatic Route has created a transparent and investor friendly framework for the electronics sector. Launched in conjunction with the PLI scheme, it has promoted exports and investment in the LSEM sector.

### **Limitations**

The major limitation was lack of data for the same time period for the same industry. Information for different industries was difficult to gather due to lack of data availability. These were placed under different headings in various government sources. There was no single definition which indicated that this data was specific to a particular industry. As the scheme was introduced in 2020 during the pandemic, it really came into operation only in 2021.

### **Conclusion and the Way Forward**

The Production Linked Incentive (PLI) Schemes have been a key driver of growth of the secondary sector and India's exports in the past 5 years. The electronics sector, in particular, has succeeded, with India transforming from a net importer to a net exporter of mobile phones. FDI in the electronic sector has also increased by 254% since the introduction of the LSEM PLI scheme. Similar performance has been seen in the other sectors, though not to the same extent. India's position in the global pharmaceuticals market has expanded to the third-largest player by volume. While in the non-renewable sector, the target of 500 GW of non-fossil fuel capacity by 2030 can be achieved through the High Efficiency Solar PV modules PLI Scheme. The

government aims at expanding the PLI Scheme, reflecting in the increased outlay allocated in the Union Budget 2025.

However, the story is not a complete success. Many companies that participated in the program failed to kickstart production or did not receive the subsidiary due to "non compliance of investment thresholds" and "not achieving stipulated minimum growth." Even if subsidies are disbursed, they are done after companies achieve at least 25% domestic value addition, making companies rely on their own funds in the early stages of projects. The lack of a robust R&D infrastructure further limits the ability of firms to design and manufacture advanced components domestically. Adding to this, is the shortage of critical raw materials across sectors which has resulted in import dependency, particularly in the Automobile sector.

To increase the share of the manufacturing sector in GDP to 25%, the PLI Schemes have to be modified. The government should shift from a "One size fits All" approach and reduce compliance criteria. A single window clearance system spanning central and state agencies should be created and unrealistic targets must be revised. Funds should be disbursed more regularly and deadlines should adapt to supply-chain delays. Central and state incentives for the manufacturing should be aligned and include higher Remission of Duties and Taxes on Exported Products (RoDTEP), and a concessional corporate tax rate. India should further invest more in Research and Development (R&D) to support Micro, Small and Medium Enterprises. All the above would enhance the linkage effect felt by investment in the manufacturing sector, and help meet targets of reduction in unemployment and boost in investment.

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