

Ministry of Civil Aviation

Production-Linked Incentive (PLI) Scheme for Drones & and Drones Components

Relevant to M&M – FES, FD & FAAS

15th September 2021

Context

The Government of India had approved a PLI scheme for drones and drone components with an allocation of Rs 120 crore spread over three financial years. Given its traditional strengths in innovation, information technology, frugal engineering and its huge domestic demand, India has the potential of becoming a global drone hub by 2030.

The PLI scheme comes as a follow-through of the liberalised Drone Rules, 2021 released by the Central Government on 25 August 2021. The PLI scheme and new drone rules are intended to catalyse super-normal growth in the upcoming drone sector.

Salient Features

The total amount allocated for the PLI scheme for drones and drone components is INR 120 crore spread over three financial years. This amount is nearly double the combined turnover of all domestic drone manufacturers in FY 2020-21.

The incentive for a manufacturer of drones and drone components shall be as high as 20% of the value addition made by her.

The value addition shall be calculated as the annual sales revenue from drones and drone components (net of GST) minus the purchase cost (net of GST) of drone and drone components.

The Government has agreed to keep the PLI rate constant at 20% for all three years, an exceptional treatment given only to the drone industry. In PLI schemes for other sectors, the PLI rate reduces every year.

The proposed tenure of the PLI scheme is three years starting in FY 2021-22. The PLI scheme will be extended or redrafted after studying its impact in consultation with the industry.

The Government has agreed to fix the minimum value addition norm at 40% of net sales for drones and drone components instead of 50%, another exceptional treatment given to the drone industry. This will allow widening the number of beneficiaries.

Coverage - It covers a wide variety of drone components, including airframe, propulsion systems, power systems, batteries, inertial measurement unit, flight control module, ground control station,

communication systems, cameras, sensors, spraying systems, emergency recovery system, and trackers.

The list of eligible components may be expanded by the Government from time to time, as the drone technology evolves.

The Government has agreed to widen the coverage of the incentive scheme to include developers of drone-related IT products also.

The Government has kept the eligibility norm for MSME and start-ups in terms of annual sales turnover at a nominal level - INR 2 cr (for drones) and INR 50 lakhs (for drone components). This will allow widening the number of beneficiaries.

Eligibility norm for non-MSME companies in terms of annual sales turnover has been kept at INR 4 crore (for drones) and INR 1 crore (for drone components).

The incentive payable to a manufacturer of drones and drone components shall be simply one-fifth of her value addition as illustrated below for a sample year (say, FY 2021-22):

Illustration: PLI calculation for a manufacturer (for sample year FY 2021-22)

| Claim year | Sales - Net of GST (INR cr) | Purchase - Net of GST (INR cr) | Value addition (INR cr) | PLI rate (%) | PLI due (INR cr) |
|------------|-----------------------------|--------------------------------|-------------------------|--------------|------------------|
| FY 2021-22 | 100 | 60 | $100 - 60 = 40$ | 20% | $20\% = 8$ |

PLI for a manufacturer shall be capped at 25% of total annual outlay. This will allow widening the number of beneficiaries.

In case a manufacturer fails to meet the threshold for the eligible value addition for a particular financial year, she will be allowed to claim the lost incentive in the subsequent year if she makes up the shortfall in the subsequent year.

The estimated pay out schedule is as shown below:

Estimated pay out schedule of PLI for drones and drone components

| Claim year | Sales - Net of GST (INR cr) | Purchase - Net of GST (INR cr) | Eligible value addition (INR cr) | PLI rate for value addition (%) | Applicable PLI (INR cr) | Disbursement year |
|------------|-----------------------------|--------------------------------|----------------------------------|---------------------------------|-------------------------|-------------------|
|------------|-----------------------------|--------------------------------|----------------------------------|---------------------------------|-------------------------|-------------------|

| | | | | | | |
|----------|------|-----|-----|-----|-----|----------|
| FY 21-22 | 200 | 120 | 80 | 20% | 16 | FY 22-23 |
| FY 22-23 | 400 | 240 | 160 | 20% | 32 | FY 23-24 |
| FY 23-24 | 900 | 540 | 360 | 20% | 72 | FY 24-25 |
| TOTAL | 1500 | 900 | 600 | 20% | 120 | |

Significance

PLI scheme for drones will not only boost domestic manufacturing of drone and drone components but also bring in new use cases and applications across various sectors. It will encourage entrepreneurs to strive towards building drones, components, and software for the global market. It will also open many more verticals for the utilisation of drones. It will help reduce imports. At present 90 %of the drones in India are imported. The government intends to make India into a global drone hub by 2030.

drones and drone components manufacturing industry may see an investment of over INR 5,000 crore over the next three years. The annual sales turnover of the drone manufacturing industry may grow from INR 60 crore in 2020-21 to over INR 900 crore in FY 2023-24. The drone manufacturing industry is expected to generate over 10,000 direct jobs over the next three years.

The drone services industry (operations, logistics, data processing, traffic management etc.) is far bigger in scale. It is expected to grow to over INR 30,000 crore in next three years. The drone services industry is expected to generate over five lakh jobs in three years.

A product specific PLI scheme for drones with clear revenue targets and focus on domestic value addition is key to building capacity and making these key drivers of India's growth strategy, it had said adding that the PLI scheme will be a big boost to this "sunrise sector".