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

Subject: Industry Challenges & Solutions regarding development of IT Hardware ecosystem in the country

Respected Sir,

Greetings from MAIT!

At the outset, MAIT deeply appreciates the relentless efforts of MeitY towards promoting IT Hardware manufacturing. We are also supportive of Gol's goal of making 2030 the decade for Electronic H/w Manufacturing for India & committed to realizing the target of \$300 billion set for electronics manufacturing by 2025. To realise this promise of \$300 bn manufacturing, there is a need to enable specific provisions to promote electronic manufacturing in India and PLI for IT Hardware 2.0 is an excellent step in the right direction.

The industry is also grateful to MeitY on its collaborative approach while developing the scheme. We have been participating in the discussions and providing key inputs as an Association and individually too on behalf of respective companies.

Sir, while the industry is extremely appreciative of the proposed scheme with its built-in flexibilities w.r.t. choosing base year, migration from PLI 1.0 to PLI 2.0 for existing applicants, additional incentives, optional items for further incentives etc., there are certain areas where we would like to draw your attention:

Industry Challenges w.r.t. indigenization of IT H/w in India & proposed PLI for IT H/w 2.0

- 1. Lack of local Component/Sub-Assembly Ecosystem & Cost of Localization:** - One of the biggest challenges confronting India towards indigenization of IT Hardware products is the lack of local component ecosystem. Majority of the components/sub-assemblies which are used in the manufacturing of the finished IT products like laptops, tablets, AIOs, & Servers are imported, and it is critical to develop a local component/sub-assembly ecosystem. Moreover, in a highly cost-competitive market of IT Hardware, the cost & quality of components/sub-assembly is critical for bringing manufacturing in the country. It is a well-known fact that India doesn't have a component ecosystem which meets the requirements of the brands as compared to other established geographies where there is well-established, highly specialized and cost-competitive component ecosystem. Hence, cost of localization plays a key role for the supply chains to look India for local sourcing of components.
- 2. No differential between Domestic Companies of large size and MSMEs:** It is appreciable that PLI for IT H/w 2.0 has no-capping for domestic companies; However, in its current form, the scheme does not differentiate between a large domestic company and an MSME and no additional incentives are provided to MSMEs (unlike the PLI for Telecom Scheme where MSMEs have an added incentive).
- 3. Linearity of Investment:** Investment criteria requirements as referred in draft PLI for IT H/w 2.0 is a major concern for industry and while there is provision of 40% carry forward; still the incremental investment requirements are difficult to be met.

MAIT has had several internal consultations with the industry on these challenges & we are listing some suggestions that have been proposed by the industry for your consideration.

1. Bring-in PLI for Components/Sub-Assemblies for Development of local component ecosystem.

MAIT suggests that PLI for Components/Sub-Assemblies including the components/sub-assemblies as recommended by MAIT in its representation dated September 2, 2022 (copy enclosed) be brought in at the earliest. We are sure that "PLI for Components/Sub-Assemblies" shall help the electronics H/w industry in increasing localization. Apart from enhancing the competitiveness of Indian electronics goods, a PLI for components shall benefit a larger product portfolio as electronics components are utilized in multiple products like toys, medical equipment, automotive industry, etc.

The rationale for suggesting these components/sub-assemblies for consideration under PLI for Components is based on various factors including alignment with the existing policies like PLI for Large Scale Electronics Manufacturing, PLI for IT hardware, SPECS, imports volume data, current/potential domestic capabilities/capacity, existing/potential components/sub-assembly manufacturers in the country, alignment with Global value chain, among many others.

Even with the conservative estimates, the total value of "electronics components/sub-assemblies imports" can reduce by more than \$5 billion, if the above-listed items are 100% localized over the years.

2. Differential Treatment of Servers in PLI for IT H/w 2.0

Servers as a category within the PLI for IT H/w 2.0 needs to be relooked for additional incentives and/or differential treatment after taking inputs from the respective companies.

3. Enhancing Product Scope of PLI for IT H/w

Economies of scale is important for industry to bring in manufacturing in the country. Inclusion of Wearables/Hearables under the ambit of IT H/w shall greatly help in bringing these economies of scale which will ultimately lead to development of component/sub-assembly ecosystem also as there are common components/sub-assemblies which will get greater demand and hence, more possibilities of indigenization and a hook for companies to start investing in these areas.

4. Additional Incentives for MSMEs in Domestic Companies

MSMEs needs to be incentivized on the lines of PLI for Telecom where 2% additional incentive may be given to MSMEs which shall help them to be competitive as against the larger companies.

We are sanguine that you will find merit in MAIT suggestions. & we look forward to your positive consideration of these suggestions. **We also seek an appointment with you for having a detailed discussion and taking your feedback on these suggestions.**

Warm regards,



Col AA Jafri, Retd.
Director General