

CHAPTER 2

Auto PLI scheme

This article aims to:

Discuss the key aspects of Auto-Production Linked Incentive Scheme in India

Background

The Government of India had introduced the Production Linked Incentive Scheme for Automobile and Auto Component Industry (auto sector) in September 2021 (PLI Scheme)¹. The PLI Scheme was launched to provide financial incentives to boost the domestic capability of manufacturing of Advanced Automotive Technology (AAT) products and attract investments in the automotive manufacturing value chain. The PLI Scheme also aimed to overcome cost disabilities, create economies of scale and build a robust supply chain for AAT products. The scheme is sub-divided into two categories - Champion Original Equipment Manufacturer (OEM) Incentive Scheme and Component Champion Incentive Scheme.

Champion OEM Incentive Scheme is a 'sales value linked' scheme, applicable on battery electric vehicles and hydrogen fuel cell vehicles of all segments – two-wheelers, three-wheelers, passenger vehicles, commercial vehicles, tractors, automobile meant for military use and any other AAT vehicle as prescribed by Ministry of Heavy Industries (MHI) depending upon technical developments.

The Component Champion Incentive scheme is a 'sales value linked' scheme, applicable on preapproved AAT components of all vehicles, Completely Knocked Down (CKS)/Semi Knocked Down (SKD) kits, vehicle aggregates of two-wheelers, three-wheelers, passenger

vehicles, commercial vehicles and tractors including automobile meant for military use and any other AAT components prescribed by MHI depending upon technical developments.

Over the past few years, MHI has provided clarity by issuing the PLI Auto Scheme² Guidelines and various FAQs from time to time which cover various aspects to be considered to determine the incentive under the PLI Scheme.

As on date, 18 applicants under Champion OEM Category and 67 applicants under Component Champion Category are approved³.



1. The Production Linked Incentive Scheme for Automobile and Auto Component Industry was notified vide notification S.O. No. 3946(E) on 23 September 2021 and amended from time to time

2. The Guidelines for the Production Linked Incentive Scheme for Automobile and Auto Component Industry was notified vide notification S.O. No. 3947(E) on 23 September 2021, and amended from time to time

3. The list of approved applicants, as on 15 May 2024, is hosted on the official website [<https://pliauto.in/>] of the 'Production Linked Incentive (PLI) Scheme for Automobile and Auto Component Industry'. The data was extracted on 25 March 2025.



An overview of the PLI scheme:

Basic eligibility criteria for being eligible under the scheme:

The scheme consists of two components incentivising incremental sales of automobile and auto components related to AAT.

- i. For a company or its group company(ies)⁴ with existing presence in India or globally in the automotive vehicles and components manufacturing business, is required to meet the following eligibility criteria basis the audited financial statements for year ended 31 March 2021:

Eligibility criteria	Auto OEM	Auto Component
Global group ⁴ Revenue	Minimum INR10,000 crore	Minimum INR500 crore
Global Investment ⁴	Global investment in gross block of fixed assets of INR3,000 crore	Global investment in gross block of fixed assets of INR150 crore

- ii. A new non-automotive investor company or its group companies, defined as companies that do not have any revenue from manufacturing of automobile or auto- components as on 31 March 2021, could participate in the PLI Scheme provided they present a clear business plan to invest in India and generate revenues from AAT vehicles or AAT components manufacturing and meet the below eligibility criteria:

Eligibility criteria	New non-automotive investor company
Global net worth ⁴	Minimum INR1,000 crore basis the audited financial statements for year ended 31 March 2021
Investment	Specific committed investments over five year period



4. Group Company(ies) shall mean two or more enterprises which, directly or indirectly, are in a position to

- exercise 26 per cent or more of voting rights in the other enterprise or
- appoint more than 50 per cent of members of Board of Directors in the other enterprise (as defined in the FDI Policy Circular of 2020).

Annual performance conditions to be eligible to claim incentive

In addition to the eligibility criteria stated on the previous page, the applicants are required to comply with the following annual performance conditions to claim incentives during five consecutive financial years (FY) starting from 2023-2024 to 2027-28. The base year for calculation of eligible sales value is FY 2019-20 (not applicable for New Non-Automotive Investor Company):

Minimum new domestic investment



The PLI Scheme states the cumulative minimum domestic investment to be made by each applicant for a period of five years to continue to be eligible under the PLI Scheme for each category under which company will apply, such as-

- Champion OEM (except 2-wheeler and 3-Wheeler)
- Champion OEM (2-Wheeler and 3-Wheeler)
- Component Champion
- New Non-Automotive Investor (OEM) or
- New Non-Automotive investor (component)

Minimum Domestic Value Addition (DVA) for product eligibility



- Approved applicants are eligible to claim incentive on eligible approved AAT products
- Pre-approval of whether product is eligible or not will be done by Testing Agency of MHI which will certify DVA in the eligible product
- Only pre-approved eligible product with minimum 50% DVA will be eligible for incentive under this scheme
- To determine eligibility, pre-approvals are required for two aspects - AAT approval and a Techno-Commercial Audit (TCA) approval

Year on year (YoY) minimum sales turnover till the end of PLI Scheme period



- The approved applicants will be entitled to receive incentives (percentage benefit) on Determined Sales Value (DSV)⁵ subject to meeting other conditions of the PLI Scheme.
- The PLI Scheme provides slab wise incentive percentage in the range of 8 per cent -16 per cent of the DSV based upon the category of the PLI Scheme.
- Additional incentive on achieving certain amount of cumulative DSV, in the range of Two per cent to Five per cent of the DSV based upon the category of the PLI Scheme and component type
- Threshold DSV for the first year is INR125 crore for all companies viz. existing Automotive and New Non-Automotive Investor companies
- YoY growth of minimum 10 per cent in DSV of first year i.e. INR125 crore has to be achieved by all approved companies viz. existing Automotive and New Non-Automotive Investor companies, to become eligible to receive incentive from FY 2023-24

(Source: KPMG in India's analysis, 2025 based on the PLI Scheme and PLI Auto Scheme Guidelines)

⁵ Determined Sales Value for Vehicle Segment/Component Segment: (Eligible Sales Value for Vehicle Segment/Component Segment for the relevant FY) minus (Eligible Sales Value for Vehicle Segment/ Component Segment for Base year)

Incentive claim application, review and disbursement

The Ministry of Heavy Industries (MHI) released a Standard Operating Procedure (SOP) for Incentive Claim (Claims SOP) under the PLI Scheme on 25 July 2024.

This Claims SOP details out the claim application process for approved applicants. The Claims SOP also brings out the responsibility given to the Project management Agency (i.e., IFCI Limited) appointed by MHI to verify the claims filed by such applicants and approve/reject the claims of the applicants.

Some of the other key aspects covered in the Claims SOP are:

Eligibility criteria: The Claims SOP specifies various definitions, aspects to be factored while determining the eligibility criteria for applicants, including the requirement for a minimum percentage of domestic value addition.

Documentation: The Claims SOP also lists the necessary documents that an applicant is required to submit along with the incentive claim, such as proof of investment, production data, and sales records.

Submission process: The procedure for submitting claims is also detailed in the Claims SOP, including the format and timelines for submission. These formats are designed to standardise the documentation and ensure that all necessary information is provided in a consistent manner.

Verification and approval: The Claims SOP also describes various stages of verification that the claims will undergo, including site inspections and audits, before approval of the claim to be disbursed. It also states timelines for suitable response from applicants including rectification and resubmission of information.

Disbursement: The Claims SOP also outline the timeline and method for disbursing the approved incentives to the applicants.

The applicants are also required to furnish various certificates by the statutory auditors along with other documents in connection with determination of eligible investment, eligible/determined sales of eligible AAT products and incentive claim for the company. These statutory auditor certificates help verify the authenticity of the claims made by applicants, ensuring that the information provided is reliable to help the Project Management Agency process these claims faster.



Accounting considerations

Ind AS 20, *Government Grants* deal with financial assistance provided by government and provides guidelines on when and how to recognise government grants in financial statements. Ind AS 20 permits grants to be recognised when there is reasonable assurance that:

- a. the entity will comply with the relevant conditions attached to them; and
- b. the grant will be received.

Accordingly, entities eligible to claim the PLI incentive should carefully evaluate the presence of 'reasonable assurance' condition before the initial recognition of any grant income. While the term 'reasonable assurance' is not defined in Ind AS 20, it may be interpreted as a high threshold and could imply a significantly higher probability than 'more likely than not'.

Since there are performance conditions required to be met annually, this assessment should continue subsequently as well, on a continuous basis, until the end of the period during which any grant received could be claimed back by the government.

Further, companies should also meticulously assess the terms and conditions stated in the PLI Scheme for the appropriate presentation of such grant as grants related to assets or grants related to Income.

Lastly, companies must ensure compliance with the disclosure requirements of Ind AS 20 such as - disclosing the accounting policy adopted for government grants, including the method of presentation adopted in the financial statements and the nature; extent of government grants recognised in the financial statements; any conditions attached to the grants and the status of unfulfilled conditions that could result in the repayment of the grants.

Bottom Line

The MHI, with an aim to drive domestic manufacturing and attract investments in the automotive manufacturing value chain, provides financial incentive to automobiles and auto component companies under the PLI Scheme. This will help reduce production costs, encourage investment in research and development, create jobs and improve product quality, making Indian manufacturers more competitive globally.

The PLI authorities have also regularly updated and released guidelines and procedures based on feedback and evolving needs, ensuring that the process for disbursement of such claims remain efficient and relevant.

Companies must meet the basic eligibility criteria and comply with the conditions stated in the PLI Scheme read with various amendments, scheme guidelines, FAQs and Claims SOP to qualify for the benefits. They should have in place processes to ensure maintenance of accurate and complete documentation, including proof of investments, production data, and sales records to ensure timely submissions. Further, companies ensure to comply with the recognition, measurement, and disclosure requirements of Ind AS 20 to ensure accurate financial reporting and transparency.