

Leveraging PLI To Boost Air Conditioner Manufacturing In India

In 2019-20, the trade deficit on air conditioning units was to the extent of \$864 million. This highlights, that there is a need to establish AC manufacturing ecosystem within India to cater to its domestic market as well as make it an export hub by leveraging the PLI scheme in a constructive manner

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by **Arjun Yadav**

The government of India, in November 2021, selected 42 applicants with committed investments of Rs 4614 crore as beneficiaries under the Production-Linked Incentive (PLI) scheme for white goods. Among these, 26 are for air-conditioning (AC) manufacturing with a committed investment of Rs 3898 crore.

At present, 90 per cent of the bill of material of the air conditioning industry is covered under the PLI scheme. However, the air conditioning industry faces the challenge of increasing its growth to twenty-four million units by 2030 from the current 9.8 million units at a compound annual growth rate (CAGR) of 13.8 per cent.

In 2019-20, the trade deficit on air conditioning units was to the extent of \$864 million. This highlights a need to establish an AC manufacturing ecosystem within India to cater to its domestic market and make it an export hub by constructively leveraging the PLI scheme.

Addressing disability with respect to China and Thailand

Mukundan Menon, President and COO, Blue Star, while lauding the government's efforts to support the AC industry through PLI, highlights a rough eight to nine per cent disability with respect to China and Thailand in three essential areas.

"The first is export incentives which are far more attractive in these countries. Then there is a lower cost of capital in some of these countries, and finally, lower logistics costs because of the infrastructure they have developed over the years. So, these are the two-three elements which add up to that eight-nine per cent. The sheer production scale is significant apart from developing a local ecosystem to compete at the global stage," says Menon.

He also suggests that the government contemplate reducing the Goods and Service Tax (GST) on ACs and bringing out a replacement scheme for ACs older than ten years to reduce the load on power grids.

Mentorship and training for MSMEs

K J Jawa, President Refrigeration and Air Conditioning Manufacturers Association (RAMA) and CMD, Daikin Air Conditioning India, stresses training and mentorship of MSME units to enable sustained growth of the industry. He states that the MSMEs have played a vital role in boosting AC manufacturing by providing competition and innovation in the market.

"Hand holding the MSMEs and growing together as partners with them along with ensuring timely and in some cases advanced payments to them will support their growth and should be standard industry practices," Jawa states.

He suggests that a public-private partnership model for the training and mentorship of MSMEs can be a welcome initiative by the government to realise the envisioned growth for the industry.

Fine-tuning and refining export incentives

Gurmeet Singh Sethi, CMD, Johnson Controls – Hitachi Air Conditioning suggests that the government should fine-tune the existing export incentives framework and make it more interactive.

“The government has done a fantastic job on export incentives front, and rather than introducing new incentives; they can refine the current framework. For example, the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme can be made more interactive. Similarly, the government can organise workshops to create awareness about the Mover scheme. Most importantly, it can also ensure that the export costs are not a burden with anti-dumping duties,” says Sethi.

Anil Agarwal, Additional Secretary, Department for Promotion of Industry and Internal Trade (DPIIT), assured industry leaders to incorporate their suggestions and enhance the existing framework to further boost the air-conditioning industry and manufacturing.

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