

## **Preparing the Application for availing the Semiconductor Policy Incentives:**

The much awaited Semiconductor Policy guidelines which will enable the promoters to file the application for the Policy incentives has been finally announced on September 14, 2007. The Semiconductor Policy was announced on March 21, 2007.

However based on my experience with the MOF & DIT at the time of formulations of the Policy, the following things should be kept in mind while preparing the applications, in order to ensure that Project gets the Policy Incentives:

- 1) **Objective of the Policy:** First and foremost, while drafting the application, the preamble of the policy as laid down below should be kept in focus. Its not every project/product that has been listed in the policy that will get the government incentives. Only those projects that have viability gap, will see the light of the government approval.

In this light the profitability of the project, project IRR and the Cash flow would require due care.

“ The semiconductor industry and other high tech industries are characterized by specific constraints that challenge their viability. These are highly capital intensive and have to deal with constantly changing technology. It, therefore, becomes imperative on the part of the Government to create a conducive environment for manufacturing and offer a package of incentives comparable with other countries to attract global investments into the manufacturing sector as well as help bridge the viability gap due to lack of adequate infrastructure and eco-system. While this will involve an initial cost incurred by the Government to seed the manufacturing industry in the country, the return on investments by way of contribution to GDP will succinctly justify the incentives planned as a part of the Special Incentive Package for semiconductor manufacturing and other high tech industries in the country.”

- 2) **SEZ or without SEZ:** Next criteria would be whether the application should be filed for the incentives with SEZ status or without SEZ status. In my opinion, this would depend upon the target market of the proposed project. If the project is for the import substitution or for the domestic market, the application should be filled without the SEZ status. However, if the project is for the 100% export purpose or where the major customers of the proposed project is within the SEZ , then the application should be filed with SEZ status.

Again the difference of incentive with SEZ status and without SEZ status is five percent of the project cost. This difference would be substantial, if the project is very capital intensive such as Fab Unit. Therefore based on the cost of capital of the project, this could be the other factor to choose between the two. Other operational benefits which are perceived to be there in SEZ is irrelevant at this point of time when the questions are being raised everyday on the concept of SEZ's in India. Further more, even without SEZ status, CVD exemption is being provided which will not increase the cost of the project as in the case of SEZ status also.

- 3) **Equity or Investment Grant:** The next big item to decide is whether to ask for the Policy Incentives in the form of Equity and Investment grant or 100% in the form of Investment grant only. The Equity contribution from the government would come upfront along with the promoters contribution after the financial closure whereas the Investment grant will be paid only after meeting the Net present value of the investment of Rs. 2500 crore or Rs. 1000 crore. However, the Equity to the government will be at par value and not at the pre-money valuation of the project at which other Equity investor would come in. However, its always recommended to have some government equity in the project.
  
- 4) **Technology Selection:** Technology would be very critical depending on the target market of the project. Technology has to be State of the Art . However, if the project is for the import substitution or for the domestic market, the technology selection criteria should very specifically lay out the enduring benefits it would provide to the large population of the country at an affordable cost.

**Background of Author:** Mr. Ajay Jalan has around 14 years of Operations & Finance experience in the Financial Services, Manufacturing, Telecom, IT & ITES and Semiconductor industry. He is a MBA from Latrobe University, Australia and CPA of India, USA and Australia. He is also a Company Secretary (Legal) of India. He is presently working as Chief Financial officer of a Venture Capital firm investing primarily in semiconductor ventures in India.

Ajay has represented ISA in last two year to Ministry of Finance and Ministry of Communication & IT in the formulation of Semiconductor Policy. He has assisted Ministry of Finance in Project appraisal of Fab unit & ATMP unit to arrive at the amount of viability gap funding to be provided to these projects under the Semiconductor Policy.

For any clarification/explanation on the above, Mr. Jalan can be either reached on email : [jalanaajay@gmail.com](mailto:jalanaajay@gmail.com) or on mobile number 919845488011.