

Special Incentive Package Scheme to encourage Investments for setting up Semiconductor Fabrication and other micro and nano technology manufacturing industries in India

Guidelines for the Operation of the Scheme

1. Background

1.1 The Special Incentive Package Scheme (SIPS) to encourage Investments for setting up of Semiconductor Fabrication and other micro and nano technology manufacturing industries in India was notified vide Notification No.78 dated 21st March 2007 in Part-I, Section 1 of the Gazette of India (Extraordinary) [F.No.3(1)/2007-IPHW (SIPS)] (hereinafter referred to as the said notification). In accordance with paragraph 7.1 of the said notification, an Appraisal Committee (AC) under the Chairmanship of Additional Secretary, Department of Information Technology (DIT) has been constituted vide Order No.3(1)/2007-IPHW (SIPS) dated 4.4.2007.

1.2 In pursuance of paragraph 7.2 of the said notification and for the effective functioning of the Appraisal Committee (AC), the following guidelines are being issued, namely:-

2. Definitions

2.1 Fab unit

A “fab unit” means a semiconductor wafer fabrication facility. A fab unit may have linked downstream or upstream investments in the manufacture of semiconductor grade silicon or wafers, chip design, Assemble Test Mark and Package (ATMP).

2.2 Eco-system units

“Eco-system units” means units, other than a fab unit, for manufacture of semiconductors, displays including Liquid Crystal Displays (LCD), Organic Light Emitting Diodes (OLED), Plasma Display Panels (PDP), any other emerging displays; storage devices; solar cells; Photovoltaics; other advanced micro and nano technology products; assembly and test of all the above products. These units may have downstream or upstream investments in the vertical chain.

2.3 State-of-the-art technology

“SIPS” includes a large number of products involving technologies, which are changing rapidly, and at the time of appraisal of the proposals, a view, based on the inputs from experts, may be taken, as to whether the proposal could be considered as a state-of-the-art technology.

2.4 Net Present Value (NPV)

The Net Present Value (*NPV*) shall be calculated in the following manner:

$$NPV = \sum_{i=1}^{10} \frac{C}{(1+r)^i}$$

where:

C = Net Cash Flow

i = Number of completed years from base year

r = Discount rate (9% in this case)

The discount rate as per SIPS will be @ 9%.

2.5 Financial closure

As per RBI circular dated 7.6.2002, the term ‘Financial Closure’ for Greenfield projects is defined as “A legally binding commitment of equity holders and debt financiers to provide or mobilize funding for the project. Such funding must account for a significant part of the project cost, which should not be less than 90 per cent of the total project cost, securing the construction of the facility.” The financial closure of the project must be certified by a Chartered Accountant. The period for financial closure and terms may be stipulated at the time of approval of the project under SIPS.

2.6 Capital expenditure

- (a) “capital expenditure” shall have the meaning assigned to it in paragraph 3.3 of the said notification referred in paragraph 1.1;
- (b) the expenditure incurred on plant and machinery and equipment shall include the expenditure on plant and machinery and equipments, erection and commissioning of the same, tools, dies, moulds, jigs, fixtures and parts, accessories, components, spares of the plant and machinery or

equipment for the manufacture or processing of any of the products eligible under the SIPS;

- (c) expenditure on leasing or hire and purchase of plant, machinery and equipment shall be treated as capital expenditure, subject to certificate from the auditor to the effect that the transaction is in the nature of a financial lease within the meaning of AS 19 issued by the Institute of Chartered Accountants of India;
- (d) expenditure on plant, machinery and equipment, tools, dies, moulds, jigs, fixtures and parts, accessories, components, spares required for in-house or captive Research and Development; purchase of technology, IPRs, patents, copyrights during the period of first ten years of the project life, shall be treated as part of the capital expenditure;
- (e) cost of technology, IPRs, patents, copyrights shall be based on auditors' certificate, purchase agreements and assessment by the technical experts.

2.7 **Threshold limit**

- (a) the threshold limit shall be the minimum amount of the investment calculated in *NPV* terms for eligibility of the benefits under the SIPS;
- (b) the minimum amount of such investment shall be Rs. 2,500 crore in case of Fab units, and Rs. 1,000 crore in case of eco-system units, made during the period of first ten years of the project following the base year;
- (c) the base year for the calculation of the threshold limit will be the financial year (FY) in which application is made. For this purpose, the FY will be the year beginning on the 1st April and ending on the 31st March of the succeeding year.

2.8 **SEZ units**

“An SEZ unit” means a unit set up by an entrepreneur in a Special Economic Zone under the provisions of the Special Economic Zones Act, 2005 (28 of 2005) and rules made there under.

2.9 **Non-SEZ units**

‘Non-SEZ unit’ means a unit, which does not fall under any Special Economic Zone.

3. Guidelines

3.1 The AC shall be assisted by internationally reputed sector experts in the products and technologies covered under SIPS, as also any other expert as may be considered necessary by it for effective implementation of SIPS.

3.2 An investor shall submit a proposal to the Appraisal Committee in the Form appended to these guidelines along with the feasibility report. The report shall, inter-alia, provide data; surveys; projections (including financial flows for minimum 10 years); business plan; phasing of expenditure and timelines for project implementation. The AC may call for such other information or material as may be required for the purposes of appraisal of the proposal.

3.3 Only technologically sound, large projects promoted by professionally qualified and financially sound and reputed players of proven track record, shall be eligible. Investors who can attract further upstream or downstream investments shall be encouraged.

3.4 The equity to be allotted to the Central Government or any agency specified by the Government shall be at par value.

3.5 While evaluating the proposals seeking equity, AC shall, inter-alia, consider the following:

3.5.1 Equity participation is proposed to be held directly by the Central Government or through any agency specified by the Government.

3.5.2 Whether the proposed value of equity to be allotted to the Central Government or any agency specified by the Government, is at par value. The investor shall not be allowed to dilute the Government stake without the prior approval of the Government. Allotment of preferential shares or private placements to the Government or its agency shall be considered under the scheme.

3.5.3 The proposed shareholder-cum-subscription agreement between the company and promoter for the equity investment is incorporating certain affirmative rights for the Central Government or the investing agency and any other conditions has been stipulated therein.

3.6 The AC shall, on the basis of the material and advice available on record, make appropriate recommendations to the Central Government. Approval of the project under SIPS shall vest with the Government.

3.7 The applicant while submitting the application for seeking release of all incentives other than equity contribution must ensure that such request be duly accompanied by the report of the annual audited accounts as adopted by the Board of Directors and a certificate from the auditors of the company with regard to date-wise expenditure on items eligible under the scheme. Such request shall be made and entertained subject to approval of the Government after the end of FY in which the NPV (as calculated as at the base year) exceeds the threshold value of the total eligible investment. The veracity of all claims submitted by applicants will be duly verified.

3.8 Investments made before the date of the receipt of application, and investment in land made more than six months before the date of receipt of application shall not be considered for calculation of capital expenditure under the SIPS.

FORM
(See paragraph 3.2)

Special Incentive Package Scheme to encourage Investments for setting up Semiconductor Fabrication and other micro and nano technology manufacture industries in India.

1. The Special Incentive Package Scheme to encourage Investments for setting up Semiconductor Fabrication and other micro and nano technology manufacture industries in India, has been announced by the Government vide Gazette Notification No. 78, Part I, Section 1, dated 21st March 2007.

2. In accordance with Para 7.1 of the Notification, vide Order No. 3(1)/2007-IPHW (SIPS) dated April 4, 2007, the Appraisal Committee has been constituted by the Department of Information Technology under the Chairmanship of Additional Secretary, DIT. Further, vide O.M. of even number dated April 26, 2007, the full composition of the Appraisal Committee has been notified.

3. The application should be submitted to **the Appraisal Committee, Department of Information Technology, Electronics Niketan, 6 CGO Complex, Lodhi Road, New Delhi – 110003, India**, in **10 copies** along with a Non-refundable, crossed **Demand Draft for Rs. 25,00,000/-** (Rs. Twenty Five Lakh only) in favour of **“Pay and Accounts Officer, Department of Information Technology”** payable at New Delhi.

4. Applicants may go through the **Guidelines carefully** before filling up the details in the application.

For Official Use only

Application No.

Date

I. Details of Bank Draft

Amount Rs.

Draft No.

Draft Date

Drawn on (Name of the Bank)

Payable at

II. Name and Address of the Company (Block Letters)

(i) *Name* _____

(ii) *Registered Office* _____

(iii) *Pin Code* _____

(iv) *Tel. No.* _____

(v) Fax No. _____

(vi) E-Mail Address _____

(vii) Web-Site _____

III. Constitution of the applicant firm: Public Limited / Private Limited / Partnership/
Proprietorship/ Others (please specify)

IV. List of Promoters with Addresses, Qualifications, Experience, Share holding, PAN numbers etc.

V. Item(s) of manufacture and capacity

VI. Investment: (Rs. lakhs)

Plant and Machinery

(i) Indigenous _____

(ii) Imported

(a) CIF Value -----

(b) Landed cost _____

Total (i) + (ii)(b) _____

VII. Infrastructure Requirements

(a) Requirement of land (Sq. mtrs.)

(i) Factory & offices

(ii) Warehousing/storage

(iii) Others, specify

Total

(b) Requirement of built-up area (Sq. mtrs.)

(i) Factory & offices

(ii) Warehousing/storage

(iii) Others, specify

Total

(c) Requirement of Water (Kilo Litres) and source

(i) For industrial (process) purposes

(ii) For drinking purposes

(iii) Others, specify

Total

(d) Effluent Treatment

- (i) Quantum and nature of effluents and mode of disposal
- (ii) Specify how you propose to treat effluents

(e) Requirement of Power (KVA) and source

VIII Employment

- (i) Supervisory
- (ii) Non-Supervisory
- Total

IX. Raw Materials (including components, intermediates & packing material etc.)

- (i) Indigenous
- (ii) Imported
 - (a) CIF value
 - (b) Landed cost
 - Total (i) + (ii)(b)

X. Pattern of Finance

- (a) Total Equity
 - (i) Resident Indian
 - (ii) Non-Resident
 - (iii) Foreign
- (b) Total Borrowings
 - (i) Public Financial Institutions
 - (ii) Public Borrowings
 - (iii) Other Sources
- (c) Promoters Contribution

XI. Foreign Investment proposed, if any

INFORMATION WITH REFERENCE TO GAZETTE NOTIFICATION NO. 78

- I Copy of Detailed Feasibility Report of the Project.
- II Detailed write up on the item/s of manufacture (reference para 2.1 of the Notification) along with Global Technological Scenario for the item, Process flow chart, Description of activities to be undertaken etc.
- III Source of Technology and standing of the foreign collaborator in the product sector. Copy of the Technology Agreement.
- IV State-of-the-art technology for the manufacture of the proposed product (reference para 2.2 of the Notification).
- V Location of the plant

Whether the location falls in DTA or SEZ and Registration/Approval thereof.
- VI Net Present Value (NPV) of investment during the first ten years of the project life with the discount @ 9% (reference para 2.3 of the Notification).
- VII Capital expenditure in land, building, plant and machinery and technology including R&D. (reference para 3.3 of the Notification).
- VIII Quantum of incentives sought (reference para 3.1 of the Notification).
- IX Break-up of incentives sought in terms of the following (reference para 4 of the Notification):
 - a) equity in the project, not exceeding 26%,
 - b) capital subsidy in the form of investment grant.
- X. The details regarding incentives offered by the State Government or any of its agencies or local bodies.
- XI. Whether the applicant has been issued Industrial Entrepreneurs' Memorandum (I.E.M) in DTA or Approval under SEZ scheme. If so, enclose a copy of the same.
- XII Expected date of commencement of commercial production

DECLARATION

I/We hereby declare that the above statement of information is correct to the best of my/our knowledge and belief and nothing contained therein has been concealed.

Place:

Signature of the Applicant

Date:

Name in Block Letters

Designation

Official Seal / Stamp

Tel. No.

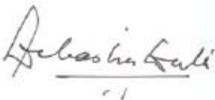
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E.Mail.

General Instructions

1. Please read the SIPS and the Guidelines carefully before filling the application.
2. Separate applications to be filed for each product.
3. Copies of the approvals obtained from the Central, State Governments and Local bodies to be attached. Or status of the approvals applied may be clearly mentioned.
4. Copies of the Purchase Orders / Indents placed with the Suppliers of Plant & Machinery/ Equipment may be attached with the application if already finalized.
5. Please see that application is complete with all the information as required in the Format.

[File No. 3(1)/2007-IPHW (SIPS)]



(Debashis Dutta)
Senior Director
14.09.2007