



PLI- TEXTILES
USER GUIDE CUM STANDARD OPERATING
PROCEDURE (SOP) FOR VERIFICATION OF
SALES, INVESTMENT AND INCENTIVE CLAIM



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The Information provided in this document is for Information purpose only and does not constitute legal advice.

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Background

Production Linked Incentive (PLI) Scheme for Textiles has been Notified vide Notification No. 12015/03/2020-IT dated 24.09.2021 and published on 27.09.2021 in the Gazette of India. Guidelines for the implementation of Scheme is also uploaded in the public domain & updated from time to time. This scheme envisages incentive for production of MMF Apparel, MMF Fabrics and Technical Textiles Products manufactured in India. IFCI Ltd was appointed as Project Management Agency (PMA) for the Scheme on 24.12.2021.

As per Scheme Guidelines, PMA is inter-alia responsible for verification of thresholds investments and threshold sales for determining eligibility for disbursement of incentive along with verification of the reconciliation of disbursement claims with prescribed documents.

Scope & Objective

A Standard Operating Procedure (SOP) is being formulated to define the scope and methodology of verification for PMA to give appropriate recommendation on the matters listed above. This SOP will act as a reference only and in case of any discrepancy, Scheme Notification and Guidelines will prevail. MOT will have the discretion to make changes / modifications in the SOP from time to time as per the requirement. This SOP prescribes a comprehensive and standardize procedures to determine Threshold investment, Threshold sales & Minimum Value Addition required to claim the incentive. The verification process and underlying documentation proposed under this SOP is an evolving process and may be further reviewed/updated/improved from time to time.

1. Verification Methodology

The verification methodology under this SOP is being formulated to balance the 'ease of doing business' with 'scope of verification' and timely claim processing by PMA.

During verification, supporting data, documents and clarification may be provided to PMA by any officer so notified for this purpose by the Participant Company. The documents submitted or any clarification provided through email shall be equally acceptable.

The applicant shall be eligible for submission of claim only after achieving the Threshold investment, Threshold sales & Minimum Value Addition for the entire relevant financial year through online portal.

This Standard Operating Procedure has been prepared in coordination/ consultation with MOT, stakeholder feedbacks and the same has been divided into three parts to represent the three major processes involved:

- Part 1: Verification of Threshold Investments.
- Part 2: Verification of Threshold Sales.
- Part 3: Verification of final incentive claims submitted by applicant for disbursement on achieving minimum value addition.

PMA will compile a Claim Verification Report by evaluating the documents and undertakings submitted by the applicants as well as satisfactory response to the observations received from the applicants. Following this assessment, the PMA will then recommend the report to the MOT for approval.

(i) Compliance under Other Acts (Statutory Compliances)

This SOP proposes to corroborate the information and documentation as per financial statements (Audited) with regulatory filings under GST Act, Income Tax Act and Companies Act to ascertain the consistency of sales data. The consistency of data across the compliance chain under different statutes provides reasonable assurance as to completeness and accuracy of the data.

(ii) Consistency of Data

It is expected that data provided by the participant at aggregate level should be consistent with financial statements, underlying ledgers and statutory returns filed under GST and Income Tax Act. At transaction level, data being verified by Statutory Auditor should be supported with underlying vouchers and appropriate internal documents (like invoice, approvals, inventory records, Goods Receipt Note etc.) and external documents (like purchase order by the buyers, balance confirmation, business agreement etc.) as may be required for a particular transaction.

2. Business Diversity

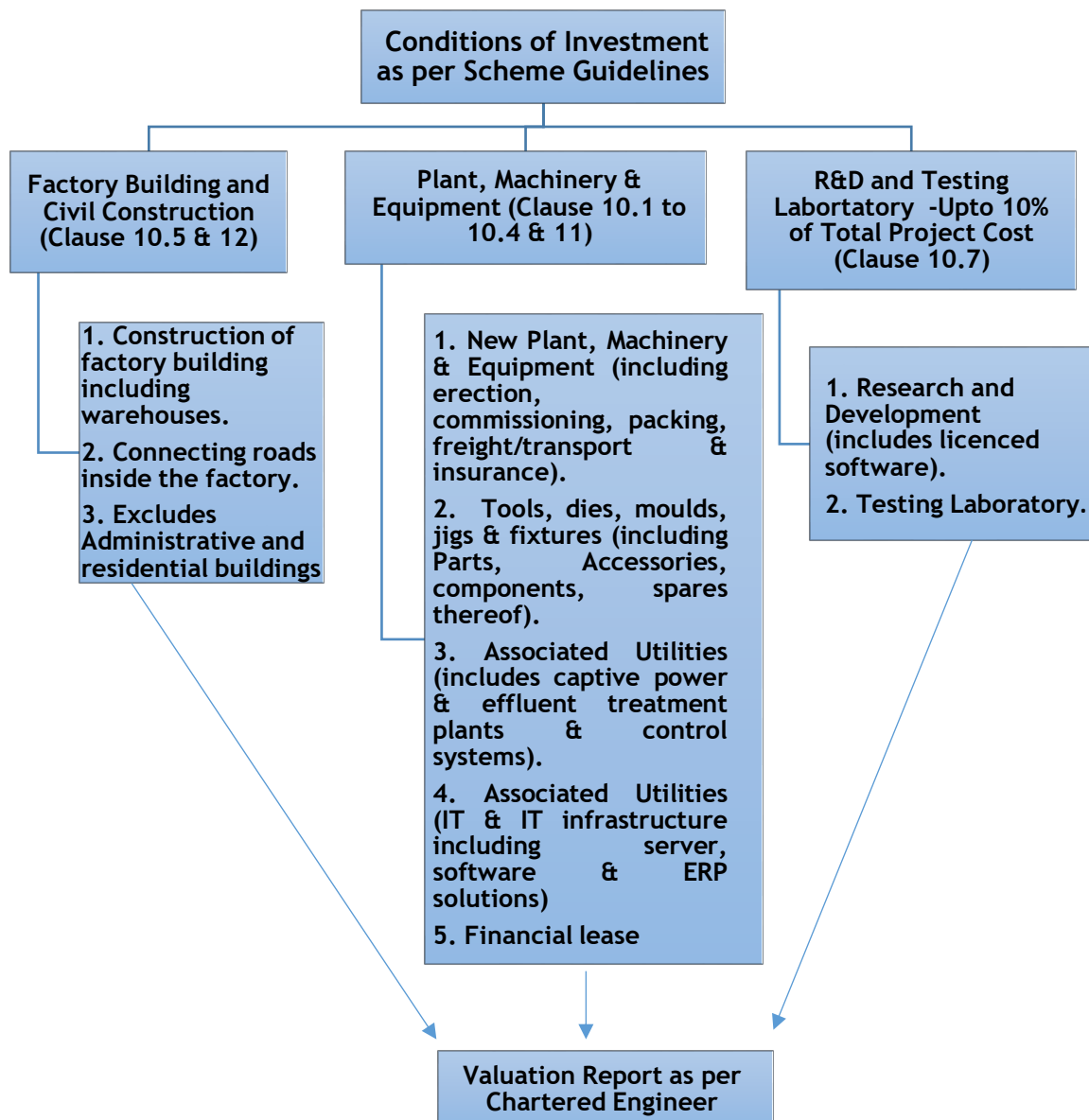
The Business operations of each Participant Company may be different, due to varying product profile, customer base, geographical diversification, management structure, internal controls & documents maintenance system etc. This SOP provides general guidance for claim verification methodology and documentation procedures.

3. Responsibility/ Liability of Participant Company

The verification procedures outlined in this SOP depend on the accuracy and completeness of data provided by the Participant Company. It's important to note that these procedures may not be sufficient to uncover any potential concealment or fraudulent activities by the Participant Company. The PMA will accept all data, documents, representations, and responses to observations raised (if any) from the Participant Company in good faith, assuming them to be accurate and complete. During the claim process, PMA will rely on, inter alia, various certificates submitted by the participant company from Statutory Auditor, Chartered Engineer, Cost

Accountant, etc. The Participant Company holds full responsibility for the accuracy of the information submitted and is liable for appropriate actions in accordance with the Scheme Guidelines if any information or documentation is found to be incorrect or inaccurate.

4. Threshold Investment



As per clause 4.2, the participant company is required to meet the criteria of threshold investment in the relevant approved segment as follows:

Particulars	Part 1 (Clause 4.1)	Part 2 (Clause 4.2)
Minimum Investment	Rs.300 crore	Rs.100 crore

4.1 Part 1 - Verification of Threshold Investment

As per clause 16.1 of the Scheme Guidelines for the Participant Company meeting the criteria of threshold investment and threshold/ incremental turnover, as prescribed, shall be eligible to claim incentive. Also the incremental turnover of Notified Product(s) should be commensurate with created production capacity under the Scheme. (Clause 16.3)

Documents Checklist for Investment Verification



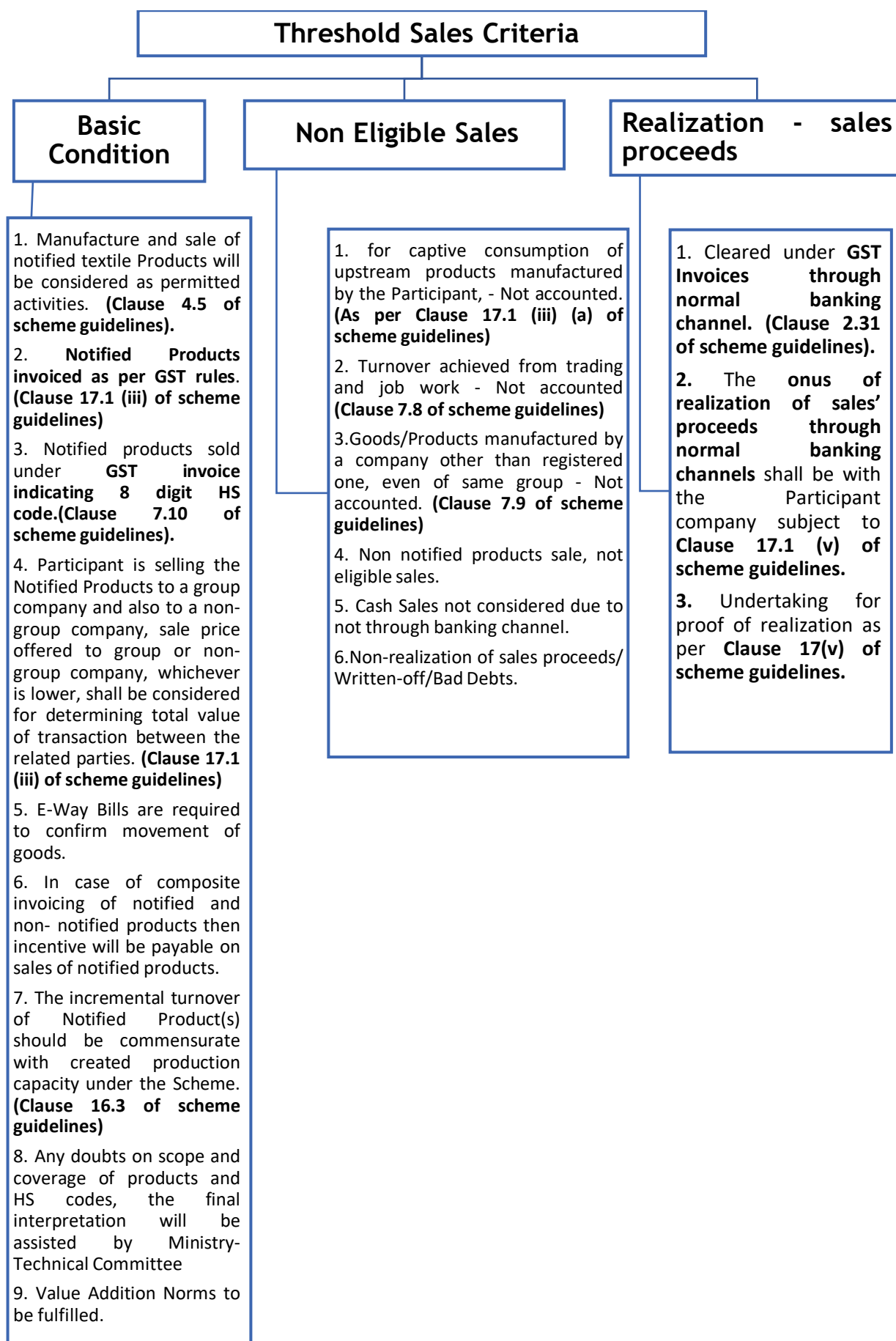
Checklist for
Verification of Inves

Verification Process

- Investments made on or after 24/09/2021 and capitalized in the books of accounts of the participant company will only be considered under the scheme.
- For the purpose of calculating threshold Investment, only expenditure on Investments which is eligible investment as defined in Para 10 of the scheme guidelines shall be considered.
- No second hand/ used/ refurbished plant, machinery, equipment, utilities shall be used to manufacture the eligible product. The heads of investment, based on which eligibility is determined, should be capitalized in the audited financial statement of the applicants as certified by the Statutory Auditor (SA).
- Reconciliations of total addition to fixed assets with balance sheet and capex register shall be access.
- Coverage of Insurance on fixed asset purchased is mandatory as per clause 20.2 of the Scheme Guidelines. Applicant shall Submit a management certificate regarding Adequacy of Insurance for the Eligible Investment along with copies of the insurance policies.
- CE certificate from Chartered Engineer in the format prescribed under Annexure 2 of the SOP as per clause 21.3 of the scheme guidelines.
- For R&D and Transfer of Technology, expenditure capitalised in the audited financial statement shall only be considered.

- Statutory Auditor certificate and purchase agreements in respect of the cost of technology, IPRs, patents, copyrights R&D expenses, expenditure related to Information Technology (IT) and Information Technology enabled Services (ITeS) infrastructure related to manufacturing including servers, software and ERP solutions shall be relied upon.
- In case of Financial Lease agreement(s) if any, the data provided by applicant in the capex register, claim application form and management representation letter shall be relied upon.
- Location of assets mentioned in the capex register of the applicant, must be certified by the SA provided for the year of claim.
- Assets acquired from group companies or related parties will be reconciled based on the arm's length price.
- In case of Domestic/ imported plant, machinery & equipment cost as per invoice including freight, insurance, and erection & commissioning and other expenses shall be considered.
- Duties and Taxes: Include Non-Creditable Duties & Taxes like custom duty and Creditable Duties & Taxes if credit not availed under GST.
- Borrowing cost is not included in Investments.
- All Transactions from Related Party/Any Group Company shall be considered as per arm's length pricing certified by the Statutory Auditors.

4.2 Eligible Sales - PLI Textiles



Part 2: Verification of Threshold Sales Notified Products under Target Segment

5. Verification Process [Threshold Sales - Notified Products under Target Segment]

- The incentive shall be available only for manufacturing and sales of notified products at approved manufacturing locations by MOT. The Participant Company will ensure that the products for which incentives are being claimed match the Notified Eight (8) Digit HS codes as outlined in the Scheme Guidelines.
- Actual date of commercial production will be verified by PMA.

Documents Checklist for Sales Verification



Checklist of Documents Required

5.1 Threshold sale Verification

The Participant Company is required to provide the details showing sales from trading & manufacturing of notified products as covered under target segment duly certified by Statutory Auditor.

Verification Process

- The revenue recognised by the applicant with respect to goods and services must comply with the accounting policy followed by them.
- PMA will refer the accounting policy disclosed by the applicant in the financial statements.
- An event of revenue recognition shall be identified like dispatch from the factory or delivery to the desired location of customer or delivery to custom Port (in case of export sales) or any other, whatever is being followed consistently by the applicant.
- **Sale of Manufactured notified product under Target Segment:** There could be a case where an applicant is engaged in the trading as well as manufacturing of the goods covered under Target Segment.

- The applicant is required to provide a statement showing sales from trading & manufacturing of target Segment separately duly certified by Statutory Auditor.
- The details of target segment sales of notified products eligible for incentive is certified by Statutory Auditors as per format attached.
- **Management Representation:** Management representation letter is to be provided on the correctness and completion of methodology for identification of notified products Target Segment Goods and Trading & Manufacturing Sales.

- **Movement of Goods**

E-way bill (generated under GST), Shipping Bill (for exports) provides supporting evidence as to movement of goods. In case for any reason, the Participant Company is not required to prepare an e-way bill under the provisions of GST Act, such sales shall be considered eligible for incentive the transaction shall be supported by Good Receipt Note (GR).

Further for any transaction, where participant is mandatorily required to generate an E-way bill, but has not been generated, such sales shall not be considered for incentive under PLI Scheme.

- **Pricing & Adjustment**

Transaction pricing as recorded in the books of accounts shall be considered. For transaction with related parties', evaluation process is given separately. Incentive shall be calculated at lower of actual sales price (post adjustment of any discount, credit note etc.) and Quoted Sales Price at invoice level.

The sales price should conform to the following: -

Exchange Rate in case of export:

- Exchange rate as per invoice issued under GST Act/ CBIC, to be considered uniformly to all participants.
- In case of Export Sales Free on board (FOB) commercial term shall be considered for the purpose of incentive calculation.

5.2 Sales Reversal

- Variable considerations viz. Target bonus and penalty etc. to the purchaser same shall be deducted from sales of Notified product(s) to arrive at net sales.

5.3 Sales Return

- Gross Sales shall be reduced by the amount corresponding to such sales return.
- Buy-Back of notified products by the company from the debtors instead of sales return shall also be considered as sales return during the year.

5.4 Related Party Transaction

The Scheme Guidelines specifically defines the Related Party transaction and provides that all Related Party transaction shall be subject to compliance with relevant statute as per clause 2.23 of scheme guidelines. The verification process for Related Party Transaction will be as under:

Identification & Reporting of Related Party Transactions shall be carried out on the basis of Accounting Standard - 18/ Accounting Standard (Ind AS) 24 and Tax Audit form 3CD and Transfer Pricing form 3CEB (if applicable).

Related party transactions should be approved by Board of Directors of Participant Company under section 188 of the Companies Act.

Reporting Under Income Tax Act, 1961: Under Income Tax Act, the transaction of expenses with related parties defined u/s 40A (2)(b) needs to be reported in Form 3CD.

6. Debtors Verification

Debtors shall be verified for checking realisation of sales. The outstanding balance of debtors as on the last day of claim period with ageing will give a suitable perspective for sales realisation.

Therefore, following procedure may be adopted for verification of debtors:

- **Aging of Debtors:** Auditor's Certificate shall be obtained on the aging of outstanding balance of debtors pertaining to eligible products as on the last day of the period of incentive claim. PMA may make enquiries into any debtor outstanding for more than 6 months, any abnormal changes in the balance of composition of debtors and assess whether the same would have any impact on sales of Target Segment Goods.
- **Onus of realization of sales' proceeds** - PMA on behalf of Ministry of Textiles reserves the right to verify the documents evidencing realization of sale proceeds which will be counted for computing Participant's turnover and incentives and take suitable recovery and penal action in case of any default on realization of sale proceeds. Non-realisation of sales proceeds/Written-off/Bad Debts shall be deducted from sales amount. PMA shall update the report accordingly.
- **Balance Confirmation:** PMA may seek balance confirmation from the debtors directly selected in a random manner. The balance confirmation shall be sought in such a manner to cover at least 25% of the outstanding balance of debtors or maximum 5 parties. The format of seeking balance confirmation from the debtors is attached.

The balance confirmation letter may be emailed/sent through courier to the concerned debtor by PMA.

Treatment of difference in balance confirmation:

- In case there is any difference in the balance outstanding as per participant and confirmed by the debtor, participant will submit the reason of difference in the balance confirmation.
- In case non receipt of balance confirmation from debtors of the applicant the same shall be reported in the claim verification report.

7. Sample verification for sales of Notified product(s) under Target Segment.

The verification of sales invoices on sample basis may serve the purpose of arriving at the conclusion of completeness and correctness of the data.

A sales register shall be obtained from the Participant Company in the format prescribed under Annexure 1 of SA Certificate.

A sample of Sales vouchers shall be selected in such a way to cover minimum 1% of the sales value and 100 number of invoices in a claim. The following parameters shall be considered for selection of sample:

- (i) Invoice issued to parties with highest sales,
- (ii) Invoice issued in the last 15 days of the claim period,
- (iii) Invoices having lowest sales value,
- (iv) Invoices having largest sales value.

8. Regulatory Filings & Reconciliation

Clause 18.2 of the Scheme Guidelines provides Participant Company's shall be required to submit a claim for disbursement of incentive on annual for the sales made in a financial year along with its audited financial statements.

It is considered appropriate that the revenue booked by the Participant Company may be reconciled with the following regulatory filings:

- Applicable GST Returns
- Participant Company shall also provide a statement of reconciliation of eligible sales with GST returns.

While the regulatory filings of 'Income tax return' under Income Tax Act, 1961 and 'Annual return' filed under Companies Act, 2013 provides reconciliation with Total revenue, GST returns provides reconciliation with total revenue, as well as product wise (Based on HSN Code).

Reconciliation with GST is one good indicator that sales on which incentive is being paid has been subject to tax levy as per prevailing rule and reported to the authorities.

Therefore, it is prescribed that:

- PMA will reconcile the annual income of financial statements with the ITR and GST Act.
- Reconciliation of sales claimed under PLI Scheme shall be taken as certified by the Statutory Auditor of the Participant Company (appended with Statutory Auditor's Certificate).

PMA shall also review the reconciliation statement and cross-check the adjustments made with accounting data viz sales, sales return, other deduction, sales of other products/ services, trading sales etc.

9. Site Visit by PMA

- Format of the Site visit report



PLI Textiles Site Visit
SOP.docx

10. Part 3 : Verification of final incentive claims submitted by applicant for disbursement on achieving minimum value addition.

The participant company is eligible for Incentive under the Scheme on fulfilling conditions of Threshold Investment, Threshold/ Incremental Turnover & Minimum Value Addition as per the clause 17 & clause 18 of the scheme guidelines. PMA shall process claim for disbursement of incentive within 45 days from the date of receipt of complete claim documents along with all supporting documents as well as satisfactory response to the observations received from the applicants and make appropriate recommendations to MOT. The Incentive shall be determined as per clause 5.5 of Scheme Guideline.

Further, Value addition has to be done by the Participating Company in its own registered factory premises and must be in compliance with to para 7.6 of the Scheme Guidelines.

10.1 Roll over effect of disallowance

If a claim has been filed for a period and any disallowance is made, the same shall not be considered for incentive in the subsequent period as claim for one period can be filed only once.

For example, sales were disallowed in one period as accounted for without dispatch of goods from the factory, whereas the revenue recognition event is 'dispatched from the factory' as per regularly followed accounting policies. Such claims shall not be allowed for incentive in the subsequent period, when goods are dispatched, as claim for one period can be made only once and also Participant Company should not have claimed incentive on the sales which is not correctly accounted as per its own accounting policy.

10.2 Specific situations

- In case of change in auditor or specific certification given by an auditor other than statutory auditor (for e.g., Tax Audit or Transfer Pricing Certificate). In such cases, current statutory auditor may refer to the certificate provided by other auditor with their opinion and may be considered for processing the claim.
- In case statutory auditor / cost auditor/ chartered engineer have any reservation of opinion, it must be brought in the opinion paragraph of the certificate bringing out clearly the impact of such certificate on sales of Target Segment Goods or investment made in that period.

10.3 Verification of claim by PMA and Disbursement of Incentive

Recommendation of incentive will involve quantification of incentive payable after completion of verification procedure by PMA. There may be a case where claims filed by Participant Company may need some adjustment

in the amount of sales or investment and consequentially in the incentive claim amount. The adjustment proposed by the PMA shall be subject to approval by the competent authority.

10.4 Disbursement Mechanism

The PMA shall submit the claim recommendation and make appropriate recommendations to the Competent Authority (MOT). The Competent Authority will consider claims for disbursement, as examined, and recommended by the PMA, for disbursement of incentive. The disbursement of incentives may be in the form of Direct Bank Transfer (to be used as may be allowed by the Ministry of Finance) through PFMS, or through any other mechanism of adjustment in the name of the Participant Company as per scheme guidelines.

10.5 Escalation Matrix

- i. The PMA shall review the claim documents submitted by the applicant within 15 days of claim submission and intimate to the applicant for any query in data & deficiency in all the documents in a consolidated Manner. It is expected that applicant should respond to the queries within next 15 days.
- ii. In case of no response from the applicant within next 15 days or it is considered that the critical information/ documents required for submission to PMA report is not submitted, PMA will escalate the matter to MOT with a status of pending data/ information.
- iii. A joint meeting amongst MOT, PMA and Applicant will be convened to discuss the status and Applicant is required to provide concrete timelines for submission of complete information & documents.
- iv. PMA will submit the incentive claim report/status report (as the case may be) to MOT within 45 days from the end of such timelines committed by the applicant based on the data available by that time.
- v. MOT shall be competent authority to extend the timelines or instruct PMA to consider data provided after the original committed timelines. In such case, timelines of 15 days for submission of report by PMA shall be considered from the date of last data submission by the applicant.

11. Part 4: Formulation of Claim Verification Report for Claim Recommendation

Formulation of Claim Verification Report by PMA

PMA will submit a report to addressing competent authority, MOT on the incentive claim for each Participant Company.

Verification Report: PMA shall submit a verification report as per format given in Annexure 18.

B. Formulation of Claim Verification Report by PMA

- i. The verification of Investments by PMA inter-alia involves the following
 - a) Reconciliation of incremental investment with financial statement, Fixed asset record (FAR) code as per FAR addition register maintained by the company, for identification of approved manufacturing location of Investment based on chartered engineer's certificate
 - b) Sample Verification of Invoice of Investment
 - c) Associate utility certified by CE
 - d) Leasehold deed in case of assets is on financial lease
 - e) Verification of copy of Insurance.
 - f) The verification process of net incremental sales followed by PMA includes the following:
 - Review of sales from financial statements
 - Invoice checking from eligible sales register as per SA certificate.
 - Sales reconciliation from GSTR - 9, GSTR - 9C.
 - PMA further verifies the E-way bills form Sales register as per SA certificate.
 - Threshold sales verification from SA certificate in consideration with CE certificate and Cost accountant certificate form claim year.

Verification of Related party transaction of Threshold investment & Sales

Verification of related party transaction duly certified by statutory auditor (SA) in its certificate the same may be further verified with audited financial statement.

SA will ensure the transaction entered between related parties are at arm's length price.

Further PMA also conducts Site visits for all approved manufacturing locations where investment are being made for notified products under the scheme to take stock of onsite progress before processing any incentive claim.

The draft claim verification report is prepared by the PMA team based on above verification & documents/certificates submitted by the Participant Company as per the Scheme Guidelines and SOP.

All documents & certificates signed digitally are acceptable for claim processing, documents which are not digitally signed shall be contained stamp & signed on every page.

The Participant Company's supplementary documents, which include digital signatures, will be accepted in electronic format.

C. Claim Verification Report - Processing by PMA

- The claim reports formulated is vetted by Independent external concurrent auditors as per the Scheme Guidelines and SOP.
- The Independent external concurrent auditors are appointed following the internal process followed by the PMA and presently the fee of these auditors is being borne by the PMA.
- The observations of the auditors are compiled in the Claim Verification Report.

D. Review by Compliance Team

- Upon receipt of Independent external concurrent auditor certificate, the claim report is placed before the internal Compliance team headed by the compliance head.
- All compliances in respect of submission of Memo recommending disbursement is confirmed by Compliance team.







E. Review by Advisory Committee


- The claim reports of a Participant Company of certain value of claim (currently above Rs.10 crore) are placed before internal Committee of Advisory Function comprising of representatives from Advisory functions as well as compliance department. The internal process of the PMA is subject to change from the time.




F. As per Para 21.1 of Scheme Guidelines dated 24/12/2021, PMA will rely on, inter alia, certificates to be submitted by the Participant company from Statutory Auditors, Chartered Engineers, Cost Accountant etc. as defined under the Scheme guidelines.

12. Certificates and Undertakings - Incentive claims processing

A list of the Certificate & Management undertakings to be obtained along with the reference to relevant format is given hereunder:

#	Documents containing information	Clause (Scheme Guidelines)	Signatories	Indicative Format, if any
1.	Management Representation Letter (MRL)	-	MD/ authorized signatory	 Annexure 3 Format for Management Re
2.	Board resolution	-	MD/ authorized signatory	 Annexure 7 Board Resolution.docx
3	Management undertaking that all the statements and documents submitted for claiming incentive are true and genuine (duly affirmed and Notarized)	7.19	MD/ authorized signatory	 Annexure 8 Management Under
4.	Format of seeking balance confirmation from the debtors	17 (v)	MD/ authorized signatory	 Format of seeking balance confirmatio
For Investment & Sales				
3.	Chartered Engineer (CE) Certificate	21	Chartered Engineer	 Annexure 2 Format for Chartered Engin
4.	Statutory Auditor's Certificate	21	Statutory Auditor	 Annexure 1 Format for Statutory Audito
5.	Cost Accountant Certificate - purchase value of Inputs/raw materials in manufacturing of notified products.	21	Cost Auditor	 Annexure 10 – Certificate from Cos'

Clearances from Company Secretary				
6.	Certificate from Company Secretary stating that all clearances like statutory, environmental, etc. have been obtained.	21	Company Secretary	 Annexure 4 - Format of Certificate

Integrity compliance				
7.	Integrity compliance as per Annexure 5 Part A, at the time of submission of claim.	-	MD/ authorized signatory	 Annexure 5A - Format for Integrity
8.	Integrity compliance as per Annexure 5 Part B, before release of incentive claim.	-	MD/ authorized signatory	 Annexure 5B - Format for Integrity
An agreement / indemnity bond from the Participant Company				
9	An agreement / indemnity bond	24.2	MD/ authorized signatory	 Annexure 6 - Format for Indemnit
List of Documents Required - Incentive Processing				
10	Annual Report should include independent audit report, CARO 2020 Audited Financials/Provisional Balance Sheets along with all annexures and Board Report.	-		
11	Tax Audit Report and Income tax return with computation of Income.	-		
12	Transfer Pricing Report and Form 3CEB, if applicable	-		

No deviations from the enclosed formats shall be allowed.