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Building the Next Manufacturing Hub: India's Mobile Phone Manufacturing Scheme (MPMS)

20 August 2026

As India transitions from the successful Production Linked Incentive (PLI) era into a more mature industrial phase, the Union Cabinet has approved the Mobile Phone Manufacturing Scheme (MPMS). With a massive budgetary outlay of INR 62,500 crore, the MPMS is designed to run for five years, from FY 2026-27 to FY 2030-31. For the electronics and manufacturing sectors, this represents not just a continuation of incentives, but an evolution in India's industrial policy – moving from primarily incentivising manufacturing scale towards deeper localisation, product design, R&D and Indian ownership of brands and intellectual property.

The Qualitative Leap: Beyond "Screwdriver" Assembly

Under the erstwhile PLI Scheme for Large Scale Electronics Manufacturing (PLI-LSEM), which concluded on 31 March 2026, India successfully established itself as the world's second-largest mobile phone manufacturer by volume, showing a remarkable growth in the electronics and mobile manufacturing segment.

Indicator	FY 2014–15	FY 2025–26 (Est.)	Growth
Total Electronics Production	**INR 1.90 lakh crore**	**INR 13.11 lakh crore**	**~7x**
Electronics Exports	INR 38,263 crore	INR 4.24 lakh crore	~11x
Mobile Phone Production	INR 18,900 crore	INR 6.27 lakh crore	~33x
Mobile Phone Exports	INR 1,566 crore	INR 2.60 lakh crore	~165x
Domestic Value Addition (DVA) in Electronics Manufacturing	15%	23%	+8 pp
Mobile Phones' Export Rank	153rd largest export	Largest export category	—

The figures demonstrate the extraordinary transformation of India's electronics manufacturing sector over the past decade under the PLI-LSEM Scheme. The mobile phone segment alone witnessed even more dramatic growth: production surged from INR 18,900 crore to INR 6.27 lakh crore (around 33 times), and exports expanded from INR 1,566 crore to INR 2.60 lakh crore (around 165 times). Significantly, mobile phones have evolved from India's 153rd largest export in FY 2014–15 to its single largest export category in FY 2025–26.

PLI-LSEM was principally designed to solve the manufacturing and assembly problem. However, while domestic value addition was monitored under the scheme, the incentive formula did not separately reward manufacturers for sourcing more components domestically, undertaking product design in India or owning the relevant brand and intellectual property.

Accordingly, even as India emerged as a major manufacturing and export location, important higher-value functions (including product architecture, critical components, design and technology) largely remained outside India. MPMS seeks to address this next set of gaps.

The MPMS directly addresses this through a three-layered incentive architecture. The scheme provides a base production-linked incentive of 2.25% to 5% on eligible incremental sales of mobile phones.

To encourage greater localisation of the supply chain, it also offers an additional 1.5% incentive linked to the domestic sourcing of specified components and sub-assemblies. This is an important departure from PLI-LSEM: localisation itself can now directly increase the incentive available to a manufacturer, rather than being merely a broader policy objective.

The emphasis on product design is particularly significant. Smartphone design

determines the product architecture and how the processor, display, camera, battery, memory, sensors and other components are specified and engineered to work together.

A manufacturer assembling a smartphone designed overseas may have limited flexibility to substitute imported components with Indian alternatives. By contrast, where the product is designed in India, components can potentially be specified, tested and integrated with localisation in mind.

Ambitious Targets and Strategic Vision

The scale of the MPMS reflects the Government's ambitious vision for India's mobile manufacturing ecosystem over the next five years. The scheme targets cumulative mobile phone production of approximately INR 39 lakh crore, reinforcing India's position as a global manufacturing hub.

Importantly, MPMS should not be understood as an Indian-brand-only programme. Global OEM manufacturing and exports remain central to the scheme, with the continuing relocation of global manufacturing to India expected to contribute materially to production growth.

A key legal question will therefore be the meaning of an "Indian brand". The detailed guidelines will need to clarify whether this turns on Indian incorporation, resident Indian ownership and control, ownership of the trademark or product IP, location of design and R&D activities, or a combination of these factors.

Key Regulatory Facilitation

The Union Budget 2026 also introduced an important tax reform aimed at facilitating investment by global original equipment manufacturers (OEMs). Foreign companies supplying machinery to Indian contract manufacturers have been granted a five-year tax exemption in respect of such arrangements. Previously, multinational companies faced the risk that providing capital equipment to their Indian manufacturing partners could create a taxable "business connection" in India, potentially exposing a portion of their global profits to Indian taxation. The exemption removes this uncertainty for manufacturing facilities operating in customs-bonded areas and is expected to encourage greater investment by global OEMs in export-oriented manufacturing in India.

Strategic Significance

The MPMS forms a key pillar of India's "China + 1" manufacturing strategy, seeking to establish the country as a preferred global alternative for electronics manufacturing. Importantly, the scheme extends beyond expanding assembly capacity by incentivising investment in product design, research and development, and the creation of Indian-owned intellectual property, thereby encouraging manufacturers to move up the global value chain. This objective also needs to be considered alongside India's Press Note 3 (PN3) foreign investment framework. MPMS is an incentive scheme and does not override separate FDI approval requirements applicable to investments from China and other land-border countries.

Accordingly, MPMS can create the economic incentive to source components domestically, while the revised FDI framework can facilitate appropriately structured Indian-majority component joint ventures bringing foreign technology and manufacturing expertise into India. However, handset manufacturing itself should not automatically be assumed to benefit from the expedited route, and minority foreign participation will still require careful consideration of control rights, board representation, veto rights and technology arrangements.

That said, structural challenges remain. India continues to rely heavily on imports for several high-value components, including semiconductors, display panels and camera modules. Consequently, the long-term success of the MPMS will depend not only on expanding finished-product manufacturing but also on the development of a robust domestic component ecosystem. In this regard, the recently strengthened India Semiconductor Mission (ISM) 2.0, supported by an additional allocation of INR 1.27 lakh crore, is expected to play a complementary role in building India's semiconductor manufacturing capabilities and deepening domestic value addition.

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