Firms may look beyond mobiles to meet ambitious electronics goal

The last of the 2-part series analyses the challenges in ramping up non-mobile device manufacturing

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The government's objective to grow the country's electronics hardware sector to $400 billion by 2025 rests primarily on the plan to make India into a global mobile device manufacturing hub. But to meet that ambition, it also needs to ramp up production and exports in other segments, namely, consumer, industrial, automotive electronics, and computer hardware, among others.

However, since non-mobile device electronics is heavily dependent on imports, the foreign dependence on non-mobile electronics hardware has shot up to $8 billion. What aggravates the problem is the lackluster export numbers. Put mobile device exports out of the picture and India's electronics export was a dismal $4.5 billion in 2018.

To address this, the government has adopted a three-pronged strategy. One, introduce a phased manufacturing programme (PMP) in sectors where local manufacturing and value addition are needed. Two, woo global players to set shop through attractive incentives. And three, in sectors which are ready to take the export plunge, go for a production-linked incentive scheme (PLI).

For instance, in the case of ACs, a draft PMP is under discussion to increase the value of production from $22,000 crore to $100,000 crore in five years. India produces 6.5 million ACs — minuscule compared to the over 100 million units China churns out annually. Also, the value addition in ACs made in India is under 30 per cent. The aim is to increase this number by cutting down imports, which are to the tune of $65,000 crore annually, says the Consumer Electronics and Appliances Manufacturers Association (CEAMA).

According to the draft plan, the duty on fully-assembled AC units, that attract 20 per cent duty, will be raised to 30 per cent by the fifth year. This is expected to incentivise firms to produce them in India rather than import in CBSUs. Similarly, there is a proposal to hike import duty on AC components to encourage production at home.

For example, the duty on compressors will be hiked to 30 per cent from the fourth year (at present they attract 12.5 per cent duty). "The Centre has discussed plans on growing local value addition with industry stakeholders," says Kamal Nandi, president of CEAMA and executive vice-president at Godrej & Boyce.

Some have already shown an interest in the PMP scheme. Japanese firm Daikin sees the potential of shifting some of their production capacity from China to India. Karwalejot Jawa, managing director (MD), Daikin India, says, "We have an R&D facility here and are considering a third unit to expand local capacity. The timing couldn't be better as many Japanese firms are looking to move their units from China."

Many home-grown companies are on the same page. "We have the technical knowhow, the only major challenge is the scale of production, due to the smaller size of the domestic market. Thus, an incentive scheme and/or import substitution scheme is required," says R Thirumaran, MD at Blue Star. "While we have the technical knowhow, the only major challenge is the scale of production, due to the smaller size of the domestic market. Thus, an incentive scheme and/or import substitution scheme is required."

But not everyone sees it that way. Says a top executive at a leading consumer electronics firm: "The Centre should learn from the failure of PMP in mobiles. For consumer durables and consumer electronics it is a disaster. An import substitution policy only raises prices for local consumers, increases overall foreign exchange outflow (because components still get imported) and makes India non-competitive in global markets."

Global TV players also say India is not attractive when compared to competing markets like Vietnam for them to set their export hubs. Says Anvmeet Singh Marwah, CEO of Super Plastronics (brand licensee for Thomson & Kodaksmart TVS in India): "While we have advantages like cheaper labour cost, overall incentives offered are lower than countries like Vietnam."

The government’s other big gamble is to woo global component players. It has earmarked $800 million under the scheme for the promotion of manufacturing of components and semiconductors. States will also support potential companies by providing incentives such as capex-linked subsidy. The ministry of electronics and information technology expects all these measures to lower the cost of manufacturing in India by 6 per cent to 10.7 per cent compared to that in competing countries.

The government has also had discussions with at least four global assembly, testing, marking, and packaging (ATMP) players to develop export hubs to undertake sourced semiconductor packaging and test services. The companies are: Taiwan-based ASE Technology Holding, Powertech Technology Inc, and SMTL, and US-based Amkor Technology.

But many say that the money earmarked for non-mobile electronics under the PLI is not even a tenth of what has been given to global and Indian mobile device players. "The incentives will reduce the gap in the cost of production, but it’s not good enough for big global manufacturers to consider India against other countries," says a top executive in the component business.

The government’s attempt to replicate the PLI scheme for telecom equipment has also met with stiff opposition from domestic firms. Global players say that India faces a cost of production disability of 8-11 per cent with Vietnam and 17-20 per cent with China, so companies prefer to import telecom equipment rather than make it in India. Home-grown players say the PLI scheme for mobiles cannot be replicated in telecom since here customers are limited (only operators) and it is a $28 billion business rather than $20 billion in the case of mobiles. Evidently, the task of getting non-mobile electronic hardware manufacturing and exports off the ground may not going to be a cakewalk.