

Towards Self-Reliance : Policy initiatives and impact under Aatmanirbhar Bharat

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The outbreak of the Covid-19 pandemic and its accompanying digital wave have highlighted the need for attaining self-sufficiency in the telecom and mobile manufacturing space. To achieve this goal, the government has announced several initiatives under its Aatmanirbhar Bharat programme. **Recently, Brickwork Ratings released a report titled “Atmanirbharta India – A Study Report on Telecom and Mobile Handset Industry”, which analyses how government policies are helping the telecom and mobile handset industry to become more self-sufficient.**

A look at the key findings of the report...

Policy impetus

Under the Aatmanirbhar Bharat initiative, the government has launched four schemes to promote the manufacturing of telecom and networking products. These are the production-linked incentive (PLI) scheme, the Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors, the Modified Electronics Manufacturing Clusters scheme, and the phased manufacturing programme (PMP).

These policy initiatives aim to promote:

- Self-reliance in telecom, networking products and mobile manufacturing: The PLI scheme aims to promote the large-scale domestic manufacturing of electronic goods, particularly mobile phones and networking products. The focus of the policy is on local value addition. The PMP is also aimed at enhancing the value of mobile phones and sub-assemblies manufactured in India and reducing overdependence on any particular country.
- Import substitution: This will include the promotion of locally manufactured telecom and networking products to reduce the dependence on Chinese suppliers, creation of alternative supply sources, and reduction of foreign exchange outgo.
- Export production: The policy initiatives are aimed at enabling India’s journey from being a net importer to an exporter of telecom and electronics.
- Direct and indirect employment: A rise in investments will lead to sustained employment generation across the value chain. Mobile assembling is a labour-intensive process, and therefore, India can benefit from its low-cost labour as compared to China, Taiwan, Korea and others.

Evolving mobile manufacturing space

Over the past decade, the Indian mobile market has transitioned from being a predominantly feature phone market to a smartphone market, in line with the global trend. The market remains hypercompetitive, with more than 20 players.

India is the second largest mobile manufacturing country, with over 200 manufacturing units (including mobile components and assembling) and has the second largest user base of mobile handsets after China. Over the years, Indian mobile manufacturers have transitioned from being pure assemblers to adding a higher degree of value, although they are still dependent on China, Taiwan and Vietnam for critical components. The smartphone market in India is witnessing increasing interest from global firms for producing mobile phones and key components in India. Smartphone manufacturers have already started investing in expanding their capacities and manufacturing capabilities to move beyond just assembling phones to a more integrated manufacturing approach, which includes software and hardware design and product specifications.

Impact assessment of policy initiatives

PLI scheme for mobile manufacturing

In April 2020, the government launched the PLI scheme to promote large-scale electronics manufacturing in India and attract large investments in the sector. Mobile phones constitute a key segment covered under the PLI scheme, which has earmarked an umbrella allocation of Rs 4,090 billion towards large-scale electronics manufacturing. The envisaged scope of investment is Rs 1,100 billion for the manufacturing of mobile phones worth Rs 840 billion over the next five years.

Under the PLI scheme for handset manufacturing, approved companies are eligible for 6 per cent incentive on the incremental sales of handsets over the base year 2019-20 for the first two years; 5 per cent for the third and fourth years and four per cent for the fifth year.

So far, the Ministry of Electronics and Information Technology has approved 16 applicants under the PLI scheme. Among the larger players, Samsung has announced its plans to relocate its mobile and IT display production unit from China to Noida, Uttar Pradesh. Xiaomi has plans to expand its Indian production capacity by 20 per cent by sourcing devices and components from local partners and manufacturers. Among domestic companies, Micromax will make a comeback in the market under the PLI scheme with its “IN” series priced in the range of Rs 7,000-Rs 15,000. Further, Dixon Technologies Limited has set up its facility and made capex investments to meet the eligibility criteria to avail of incentives under the PLI scheme. The company has also tied up with global brands like Motorola and Nokia. It will cater to their smartphone requirements over the medium term.

PLI scheme for telecom and networking product manufacturing

The PLI scheme for telecom and networking product manufacturing was announced in February 2021, with a total outlay of Rs 121.95 billion. It will be effective from April 1, 2021 for a period of five years. The investment under the scheme needs to be made over a period of four years, subject to qualifying incremental annual thresholds. While the details of these investments have not been declared yet, the policy announcement has improved the industry sentiment.

Phased manufacturing programme

The PMP was launched in April 2017 to promote the indigenous manufacturing of mobile handsets and their sub-assemblies, through fiscal and financial incentives. Incentives under PMP include a rationalised tariff structure; capex benefits under the modified special incentive package scheme; export benefit of 4 per cent under the merchandise exports incentive scheme; duty protection for five years; and 100 per cent FDI for mobile phones and their sub-assemblies.

Implementation challenges and bottlenecks

The key challenges faced in the implementation of government schemes are:

- Supply chain issues and continued import dependence: The global supply chain disruption and the shortage of components such as displays, memory and electronic chipsets has impacted the production capability and launch schedule of Indian handset manufacturers such as Karbonn, Micromax and Lava. The shortage has also led to a sudden and sharp increase in the price of these components, which has made competition tougher in the entry-level basic smartphone segment. The Indian Cellular and Electronics Association has requested the government to roll over timelines for incentives under the PLI scheme. Hence, component self-sufficiency is viewed as a critical implementation challenge for handset players, especially smaller players, where sourcing volumes are lower. A higher cost of production could also lead to lower returns on investment, which, in turn, will slow down future investments and the development of the ecosystem.
- Higher cost of production vis-à-vis other Asian countries: The cost of manufacturing of mobiles in India stacks up higher than that of China and Vietnam due to multiple factors ranging from a lack of subsidies for infrastructure, and research and development to a higher cost of working capital debt. Even with PLI incentives included, the Indian cost will remain 13-15 per cent higher the cost of Chinese components.
- Slower-than-expected global growth leading to limited scope for exports: The rising adoption of artificial intelligence in smartphones and the use of 5G could propel handset demand over the next five-year period. Rising disposable incomes and the influx of budget-centric smartphones and new variants are some of the key factors that will drive the smartphone market growth over the next five years. However, this would lower economic growth, thus hampering smartphone demand and leading to the underutilisation of capacities.
- Risk aversion in lending and high cost of capital: The higher cost of debt in India compared to its Asian peers poses cost disadvantages. China and Vietnam have interest subventions on working capital, which renders the Indian cost of debt comparatively higher.

Conclusion

Challenges notwithstanding, Brickwork Ratings believes that policy initiatives such as Make in India, the PLI scheme and PMP, under the umbrella of Aatmanirbhar Bharat, have the potential to promote large-scale manufacturing of telecom, networking products and mobile phones in India over the medium to long term, thereby enabling India’s inclusion in the global supply chain.

Currently, all economies are looking at reorienting their supply chains while reducing overdependence on a particular country for sourcing mobile devices and components in the backdrop of disruptions led by Covid-19. For Indian manufacturers, ensuring component supplies, controlling the overall cost of production, and securing timely funding for capex and working capital would be critical success factors.