

**Digital push to drive growth for Electronic sector**

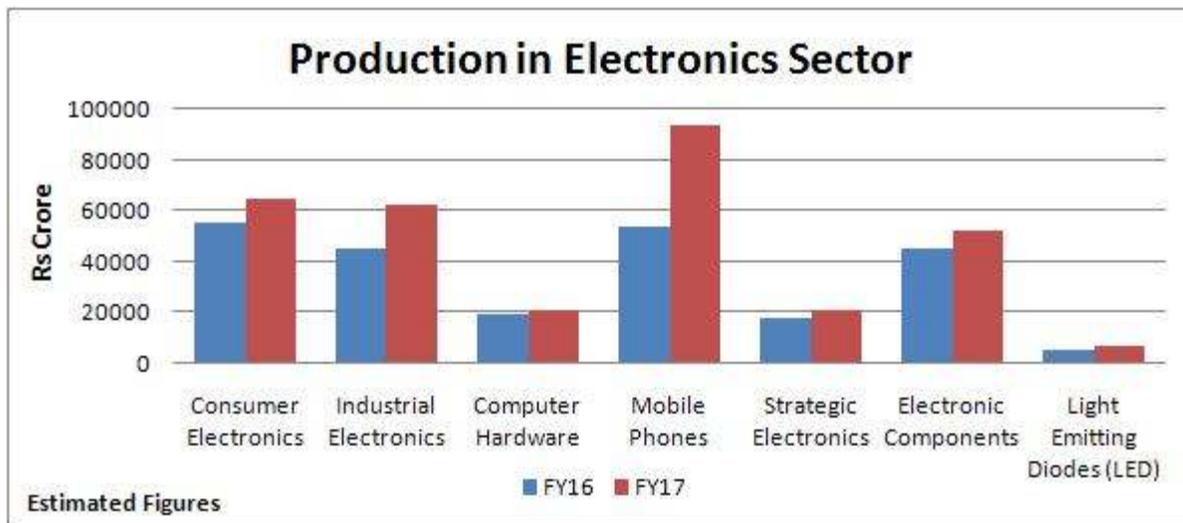
JULY 22, 2017

**Government's steps to provide fillip to Electronics industry**

Indian electronics industry is growing at a rapid pace becoming one of the largest in the world. The industry is expected to grow at a compound annual growth rate (CAGR) of 66.1 per cent from \$31.6 billion in 2015 to \$400 billion in 2020 on the back of rising disposable income, changing lifestyles, and easier access to credit. In FY16, consumer electronics was the largest segment of electronics industry with a production of Rs 55,765 crore, while mobile phones are estimated to be the largest segment of the industry with a production of Rs 94,000 crore. Meanwhile, the government has lent support to the industry by setting up Electronic Hardware Technology Parks (EHTPs), Special Economic Zones (SEZs) and brought about a favourable climate for Foreign Direct Investment (FDI).

**Industry overview**

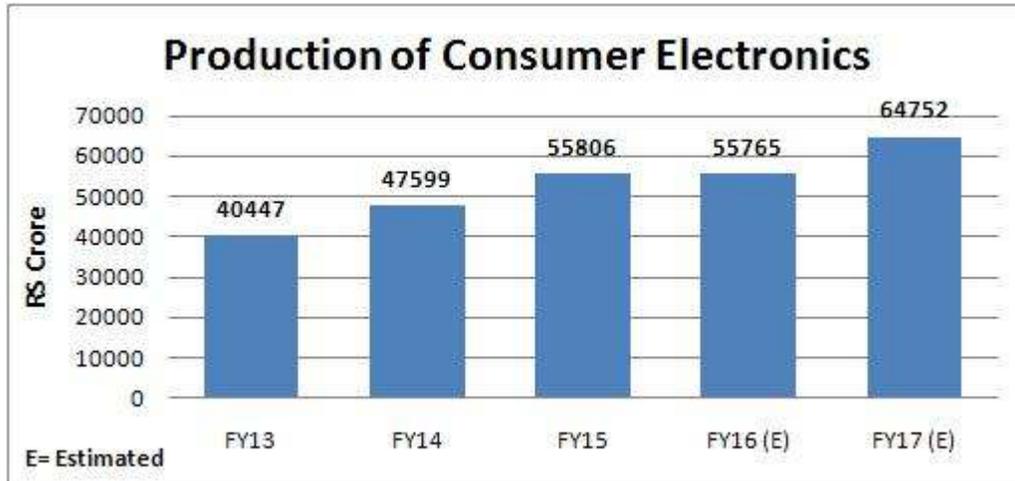
The electronics sector has several verticals, where value of Consumer Electronics is expected to increase around 16% in FY17 as compared to Rs 55765 crore in FY16. Production of Industrial Electronics is expected to grow 38% to Rs 62214 crore from Rs 45083 crore in FY16. Production of Mobile Phones, Strategic Electronics and Electronic Components are expected to grow 74.07%, 14.98% and 14.80% y-o-y, respectively.



**Consumer Electronics**

The overall production of Consumer Electronics segment was of Rs 64,752 crore in 2016-17 compared to Rs 55,765 crore in 2015-16, exhibiting a growth of 16.1%. A notable feature of growth in Consumer Electronics in the earlier years was the rise in imports over the years in respect of certain items like LCD/ LED TVs. The government stopped duty free import of such items as baggage and imposed a 36.5% duty on the same in 2013-14.

Subsequently, the production of LCD/LED TVs increased to 12.0 million units valued at Rs 21,000 crore in 2015-16, from 8.75 million units valued at Rs 16,200 crore in 2014-15 exhibiting a growth rate of 37% and 30% in quantity and value terms respectively.

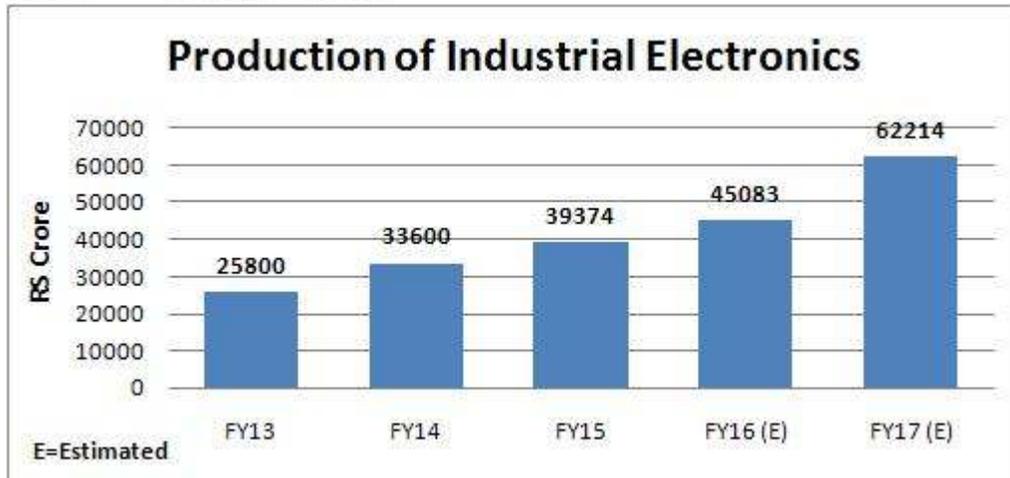


### Industrial Electronics

Industrial electronics sector is closely linked to the investment in industry and infrastructure. Process Control Equipment, industrial control systems, Test & measurement devices, Power Electronics, Automated / automation equipments and Analytical Instruments, agriculture electronic instruments, environment monitoring instruments etc. are some of the key segments of this industry. As per estimates of ELCINA, the overall production of Industrial Electronics was Rs 45083 crore in 2015-16 and grew over Rs 62214 crore in 2016-17, up by 38%.

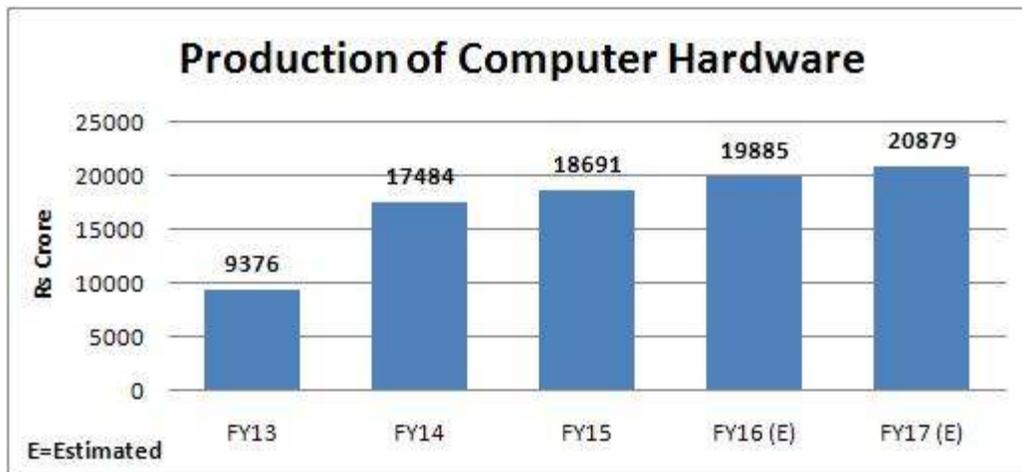
The emerging trends in Industrial electronics are slated to change the landscape not only in the areas of electronics manufacturing but also the rest of the manufacturing sector. Artificial intelligence and 3D technologies and printing is increasingly helping industry to be more efficient, improve quality control and reduce manual supervision costs. The introduction of newer software for Integration of production and business operations can help companies to integrate their production and business operations to maximize production and reduce overheads.

The electronics sector is witnessing a wave of new technology including internet of things (IoT), decision analysis, 3D co-ordinate systems, smart Image processing, nanotechnology, nanoscale assemblies, distributed control systems and robotics to manage process and equipments in a range of industries. Most of the domestic demand is catered by local manufacturing, whereas, about 10% of the sophisticated products are imported.



### Computer Hardware

The overall production of Computer Hardware stood at Rs 19885 crore in 2015-16 and grew to about over Rs 20879 crore in 2016-17, up by 5%. Due to the increasing need for computers in commercial, industrial and personal use, the demand for computers is expected to grow in India at a steady pace.

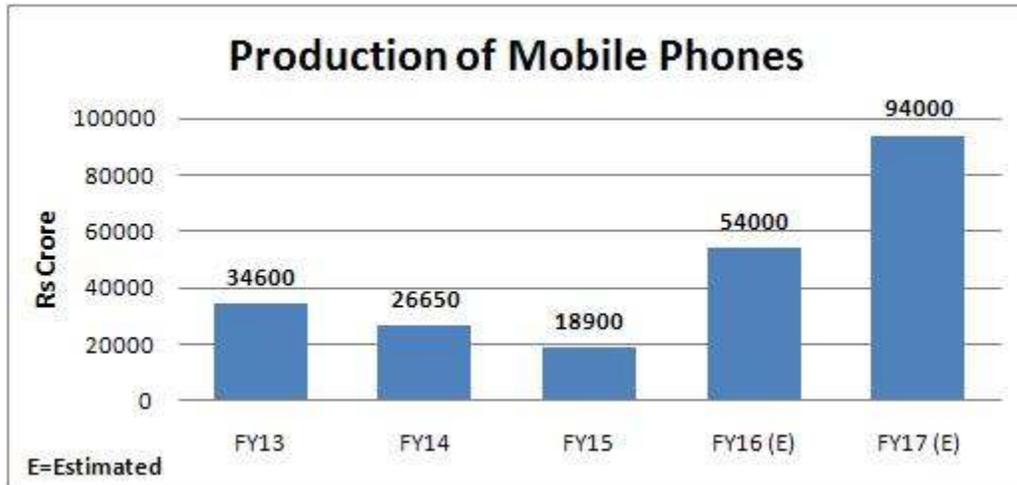


### Mobile Phones

India has the second largest wireless network in the world. The country has witnessed a rise in manufacture of mobile handsets during the past decade. Today, the share of mobile handset industry in value terms over the total ESDM (Electronics System Design and Manufacturing) segment in India is estimated at about 30%, which makes mobile handsets' industry as the largest ESDM vertical. Several initiatives have been taken during the year leading to significant investments in new manufacturing operations. Some of the important initiatives like enhancing of the differential excise duty benefit on mobile handsets have played a key role to transform the manufacturing space.

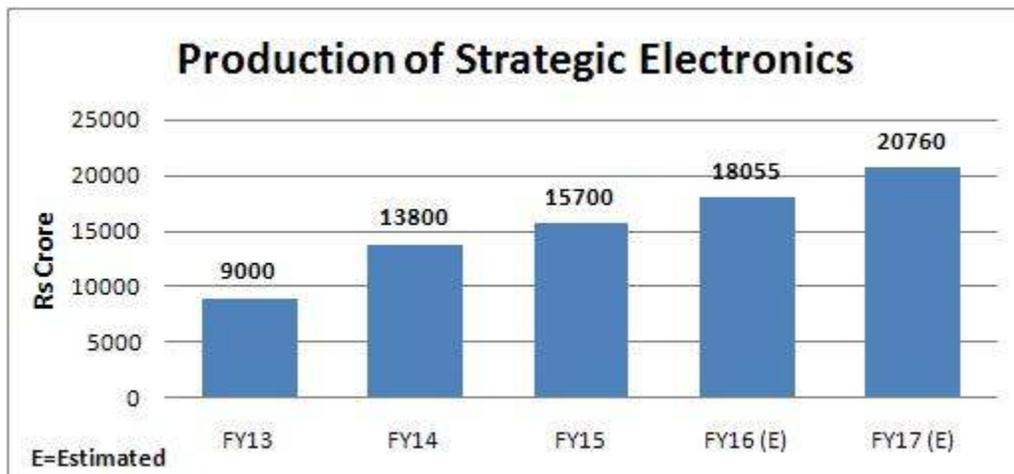
The total production of mobile handsets in India jumped to Rs 54,000 crore by value during 2015-16, registering a growth of about 185%. In volume terms manufacturing of mobile handsets

reached 110 million units thereby registering a growth of around 90%. Around 40 new manufacturing plants to manufacture mobile handsets have been set up during the past about 18 months generating direct and indirect employment opportunities for 1,20,000 persons. Manufacturing of mobile handsets is further estimated to grow by about 74% during 2016.17 to reach the manufacturing value of about Rs 94,000 crore.



**Strategic Electronics**

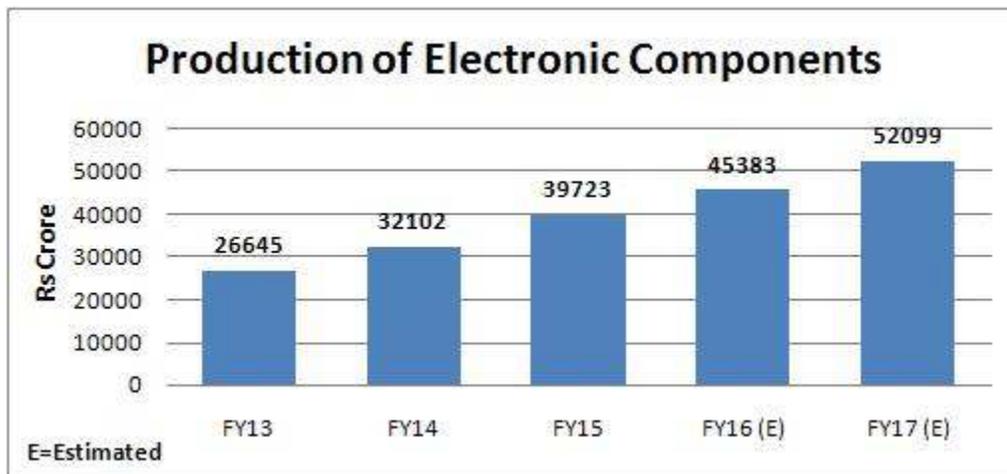
The strategic electronics segment consists of Military Communication systems, Radars and Sonars, Network Centric systems, Electronic Warfare systems, Weapon systems, Satellite based Communication, Navigation and Surveillance systems, Navigational aids, underwater electronic systems, infra-red based detection and ranging system, disaster management system, internal security system etc. Electronics is a key area of defence technologies and forms a vital component of nearly all the weapon systems, platforms and equipment designed and developed for Defence purpose. The production of Strategic Electronics was of worth Rs 20760 crore during 2016-17 as compared to Rs 18055 crore in 2015-16. India's defence, aerospace and nuclear sectors are poised for substantial growth. The role of IT in defence is expanding with the new focus on cyber security.



**Electronic Components**

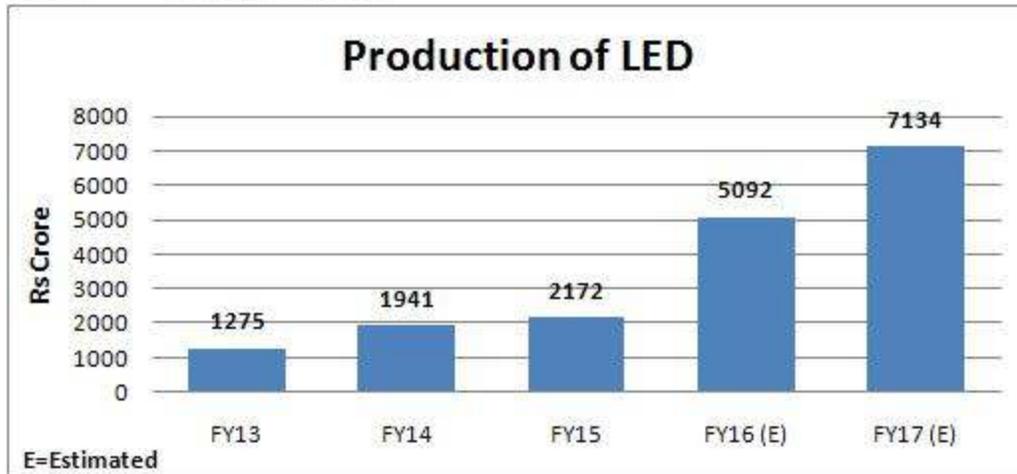
The overall production of Electronic components stood at Rs 45383 crore in FY16 and grew to about over Rs 52099 crore in FY17, up by 14.80%. It is however noteworthy that a significant share (70%) of component production is exported leaving only about 30% for domestic consumption, which is used in local equipment production. Rapid growth in domestic manufacturing of electronic components is vital and the only way in which overall electronics manufacturing will grow. The emerging high growth areas for domestic manufacturing are LED Lighting, Automotive electronics, energy meters, solar energy and IT products such as Tablets.

These products are now driving the growth of electronic component manufacturing. These products are in addition to existing segments such as telecommunications, consumer electronics and industrial electronics. The Indian electronic component market is dominated by electro-mechanical components (like printed circuit boards, connectors, etc.) with 29% share, passive components (like wound components, capacitors, resistors. etc) have about 24% share. Further active components (like ICs, Diodes, Transistors, Picture Tubes, etc.) and the Associate Components (like optical disc. magnets, RF Tuners etc.) constituted 18% and 29% share of the components respectively.



**Light Emitting Diodes**

One of the driving forces for growth in electronics manufacturing is the Indian Lighting market. The demand for energy efficiency has brought forward an immediate need for more energy efficient products and also has pushed market towards more efficient products such as Light Emitting Diodes (LEDs). LEDs are the choice for energy efficient lighting and as per Electric Lamp & Component Manufacturers (ELCOMA), LED manufacturing in India has grown by about 59% to reach Rs 5092 crore in 2015-16 and is estimated to reach a production value of about Rs 7134 crone in 2016-17. The opportunities for Light Emitting Diodes (LEDs) in Indian lighting markets have increased in automobiles, communications, signage, signaling, architecture and entertainment sectors. The opportunity for LEDs in the general space illumination segment of residential and commercial buildings has also emerged and expanding very raptly.



### Imports

Total import of Electronics into India in 2015-16 was \$40,022 million. The overall import of electronics exceeded domestic production thus making India dependent on imports. Import of electronics accounts for over 10.5% of total imports by India. Import of electronics showed strong growth of 8.59 per cent in 2015-16 driven largely by growth in Electronic Components (32.2%) followed by Electronic instruments, (8.88%) telecom equipment (4.8%) and computer hardware & peripherals (3.6%), however consumer electronics reported a de-growth of 0.38%.

Moreover, imports of Electronics during 2016-17 (April-Dec) declined as compared to corresponding period of the previous year with a negative growth of 0.83 per cent. This marks a reversal of the strong growth in imports witnessed in 2014-15 and 2015-16. Except for electronic components whose imports grew by over 17 per cent during this period, all other product groups witnessed negative growth. Computer hardware imports declined by 14%, Telecom instruments by dropped 2.2%, consumer electronics by slipped 1.41 per cent and electronic instruments was down by 1% during Apr-Dec of 2016-17.

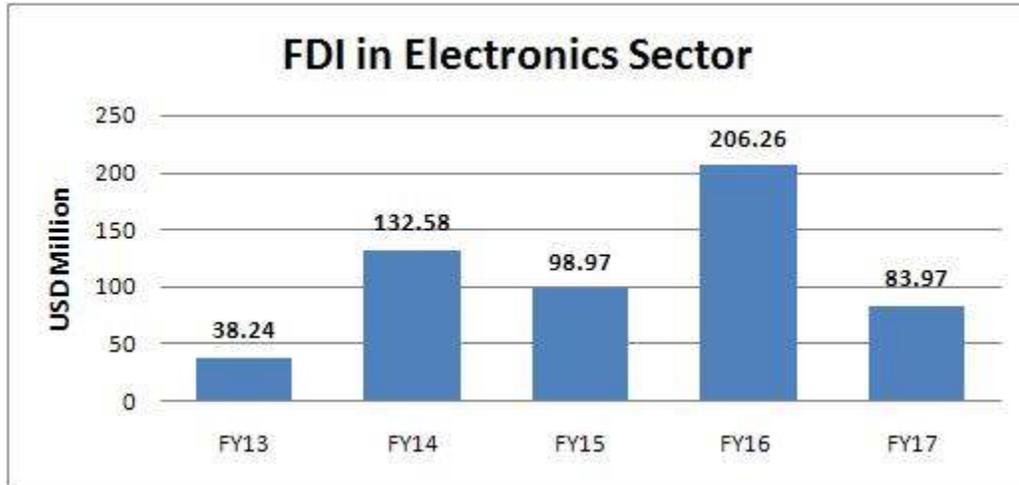
### Exports

The total export of electronics from India in 2015-16 was \$5690 million. Electronics Exports account for a small proportion about (2.17%) of total exports from India. Electronic Exports showed a decline in 2015-16 with a growth rate of (-) 5.2 per cent with the sharpest decline being in telecom instruments. In terms of composition, export of electronics in 2015-16 comprised of electronics instruments (34.5%) and electronic components (32.4%) with the balance accounted for by Telecom instruments (15.4%) consumer electronics (11.4%) and computer hardware (6.3%).

However, Exports in 2016-17 (April-December) have shown a revival and grew at 1.5 per cent on the overall thereby reversing the declining trend witnessed in 2014-15 when electronics exports shrank by (-) 9.9 per cent. A noteworthy development during the year (Apr-Dec 2016) was the robust increase in growth in telecom instruments by 27 per cent. Export of electronic instruments was about 4.4 per cent. However, negative growth was witnessed in respect of export of computer hardware (-31%), consumer electronics (-7.3%) and electronic components (-2.5%).

**FDI in Electronics**

The Electronics sector has attracted Foreign Direct Investment (FDI) Equity inflows worth Rs 565.81 crore or \$83.97 million in FY17 as compared to Rs 1,341.38 crore or \$206.26 million in FY16. The sector has attracted FDI Equity inflows worth Rs 604.07 crore or \$98.97 million in FY15.



**Recent developments**

**Government approves electronics development fund of Rs 6,831 crore**

Government has approved Rs 681 crore as seed capital for building a total corpus of over Rs 6,800 crore under the electronic development fund meant to support entrepreneurship and innovation in electronics and IT. The electronic development fund is the mother fund that will contribute to various funds under it, for those who invest the money in companies for creation of intellectual property rights in the field of electronics and IT. Investments in electronic manufacturing, which was just Rs 11,000 crore in June 2014, has increased to Rs 1,27,880 crore and from 6 crore mobile handsets in 2014-15, India's mobile manufacturing capacity has increased to 11 crore in 2015-16. Electronics production in the country has increased across segment with value of LED products registering over twofold jump to Rs 5,092 crore in 2015-16 from Rs 2,172 crore in 2014-15. Moreover, value of mobile handsets produced in India has increased by 185 per cent to Rs 54,000 crore in 2015-16 from Rs 18,900 crore in 2014-15. In 2017, it is expected to increase to Rs 90,000 crore.

**Govt. to revise policy framework in making India a global semiconductor hub**

The ministry of electronics and information technology is revising its policy framework towards making India a global semiconductor hub, which will see the government taking a more active role, including initial investment, in a bid to attract private sector players. The existing policy has not worked as it offered little commercial viability for the private sector. Instead of just inviting the private sector, the ministry is looking very closely at an approach where government makes a strategic investment (complete initial funding), and then at a suitable point in time, dilutes equity to bring in private sector partners.

## **Government approves incentive scheme to boost electronics manufacturing**

Government has approved the modified version of a key scheme that incentivizes electronics manufacturing in the country. Approvals under the policy called Modified Special Incentive Package Scheme (M-SIPS) will be accepted till December 2018 or till an incentive commitment of Rs 10,000 crore is reached. The time frame for the incentives has also been fixed as five years (down from ten years) which means that incentives will be available for investments made within five years from the date of approval.

## **Impact of GST on Electronics industry**

Currently, the rates on electronic components are around 18.12 percent, but under GST they will be taxed at 28 percent, which could have a crippling effect on the manufacturers. In consumer electronics segment, a tax of around 13.5 percent is currently levied on smartphones including all the indirect taxes, but with GST, it will come down to 12 percent. This will make smartphones a bit cheaper than they are right now. The components used for making smartphones are also categorized in the 12 percent price bracket. However, DSLR camera, TV, speakers, computers and monitors will now be levied a tax of 18 percent, making them a bit more expensive. Even laptops fall under the same slab, and their prices are also set to go up marginally. Moreover, all electronics appliances, such as washing machines, refrigerators, vacuum cleaners, shavers, trimmers, dishwashers, water heater, mixers, toasters, weighing machines are categorized under 28 percent GST slab, and their prices are set to become costlier.

## **Outlook**

The Indian electronics industry is going through an exciting phase on the back of revolutionary changes in technology, the launch of innovative products and the challenge of global competition. This has made it necessary for electronic product and component manufacturers to focus on continuous improvements in order to stay ahead of the pack. The increasing consumer base and the increased penetration in consumer durables segment have generated opportunity for the growth of the Indian electronics sector. Also, digitisation of cable could lead to increased broadband penetration in the country and open up new avenues for companies in the electronics industry. Moreover, government is working on an export-oriented policy for Electronic products, which will promote greater exports of electronics and drive larger investments by setting up port-based electronic manufacturing clusters. Government's steps like approving electronics development fund of Rs 6,831 crore and approving incentive scheme to boost electronics manufacturing too will provide fillip to the industry.



Companies Financial Data in Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Kaycee Industries Ltd.	4173.75	26.49	1931.89	0.12	101.15	41.26
Siemens Ltd.	1333.35	47483.29	194.20	2.51	82.65	16.13
Voltamp Transformers Ltd.	1309.65	1324.99	513.27	1.15	67.18	19.49
Honda Siel Power Products Ltd.	1379.95	1399.69	417.75	0.54	56.34	24.49

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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