

MAIT *wire*

Where IT Industry Connects and Communicates



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**BUDGET 2015: Electronics
Manufacturing Takes Stock**

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An exports-led approach to making India
THE electronics manufacturing hub

SPOTLIGHT

MAIT EduVision 2015

Developing Employability through IT powered Education in 21st Century



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WELCOME



Dear Readers,

Welcome to another issue of *MAITWire*!

With the Union Budget having been tabled in parliament last month, the on-ground implications are becoming clearer now. In this issue, we have focused on determining reactions to budget announcements from leaders in the IT manufacturing community. We

have also attempted to understand what else needs to be done to spur domestic manufacturing in India.

The issue of extending the excise duty incentive scheme to notebooks, desktops, servers and Customer Premises Equipment (CPE) is crucial. The demand for these products is presently met through imports and the current volume of 20 million units a year is far too insignificant to justify the growth of a component ecosystem. If the duty differential scheme is extended to these products, it will make a sound case for the setting up of a component ecosystem. This will not only boost domestic manufacturing for ICT products but also ensure that locally manufactured components spill over to other electronic products being manufactured in the country. With the duty differential scheme, the imports of finished products would immediately be swapped with locally manufactured products. This will ensure that existing idle manufacturing capacities are fully utilized.

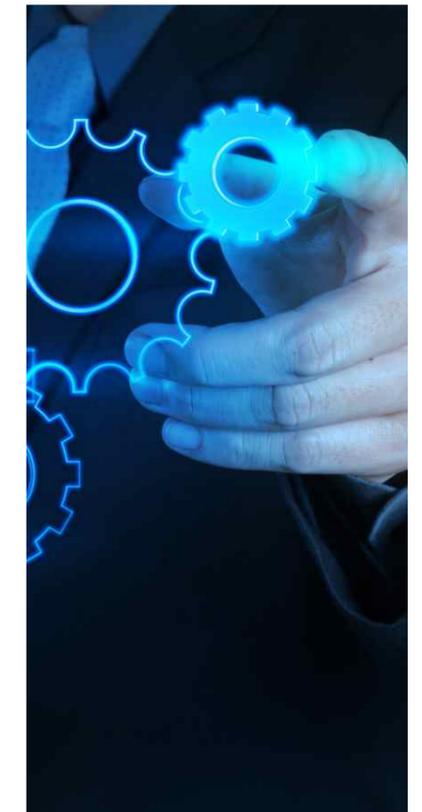
Moreover, the 'Digital India' initiative is expected to create humongous demand for computing devices and CPE in the months ahead. With 'net-zero imports' being the objective, the key question to be answered hereafter is whether this will be met through imports or through the 'Make In India' program.

This issue also contains details on the Memorandum of Understanding (MoU) signed between the MAIT SME Chapter and the Busan IT Industry Promotion Agency (BIIPA) to promote closer cooperation between Indian & Korean Electronics & IT manufacturing companies and to foster profitable partnerships between Indian and Korean SMEs.

We are delighted to inform you that *MAITWire* now reaches 26,000 people across the electronics hardware manufacturing sector, policy makers and other government bodies. We would like to thank all our readers for their constant encouragement towards making this possible.

Warm Regards,

Anwar Shirpurwala
Executive Director, MAIT



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BUDGET 2015: Electronics Manufacturing Takes Stock



The overall consensus from India Inc. is that Union Budget 2015 has set a positive and pro-reform tone across the country. From the viewpoint of electronics and hardware manufacturers, most believe that announcements such as more focus on skill development, fostering start-ups, increased fund allocation to states and duty benefits for specific products are well-timed. Contrary to expectation, there has been no quick impact stimulus to reduce electronic import in the immediate term but initiatives proposed in the budget are likely to accelerate growth, enhance investments, boost job creation and thereby increase the manufacturing footprint across the nation.

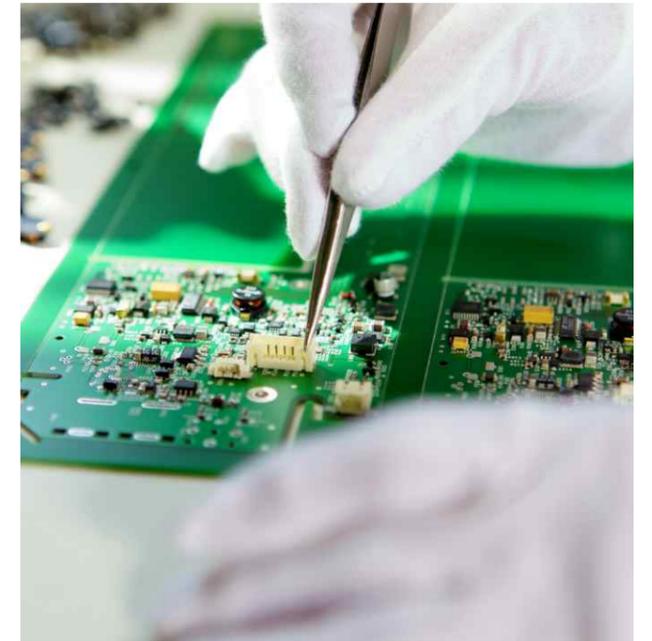
The extension of the time limit for CENVAT credit availment will also bring much needed relief to the industry. Another constructive announcement is that Special Additional Duty (SAD) is exempted on many goods used in the manufacture of information technology goods.

Before we begin a thorough analysis of the budget, it is important to highlight some of the key representations made to the government by MAIT prior to its unveiling. These suggestions included efforts to incentivize manufacturers, rollback of certain provisions of the last budget, MAT relief for SEZs, better clarity on indirect transfers, deferment of the General Anti-Avoidance Rule (GAAR) and commitment on Goods and Services Tax (GST).

Speaking to *MAITWire*, Mr Amar Babu, President, MAIT and Managing Director, Lenovo India Private Limited, said, "MAIT welcomes announcements specific to GST, alignment of rate/cess on CVD and excise duty and steps to streamline compliance. With CENVAT credit, manufacturers can avail credit of duty paid on inputs even if such inputs are directly received in the premises of the job worker. The extension of the time limit for CENVAT credit availment will also bring much needed relief to the industry. Another constructive announcement is that Special Additional Duty (SAD) is exempted on many goods used in the manufacture of information technology goods." *MAITWire* also spoke to industry heads to determine their take on announcements specific to hardware and electronics manufacturing.

There have been a lot of positive declarations that have been made in the area of indirect taxes. The GST regime is set to roll out on April 1, 2016, and it will serve to integrate the national market for goods and services. "The proposed GST also comprises important changes with regard to digital tax filing procedures. These include online registration for service taxes and central excise duty. Another game changer that has been proposed is the issuance of digitally signed invoices and electronic records as it will cut out red tape significantly", said Mr. K E Ranganathan, Managing Director, TVS Electronics Limited.

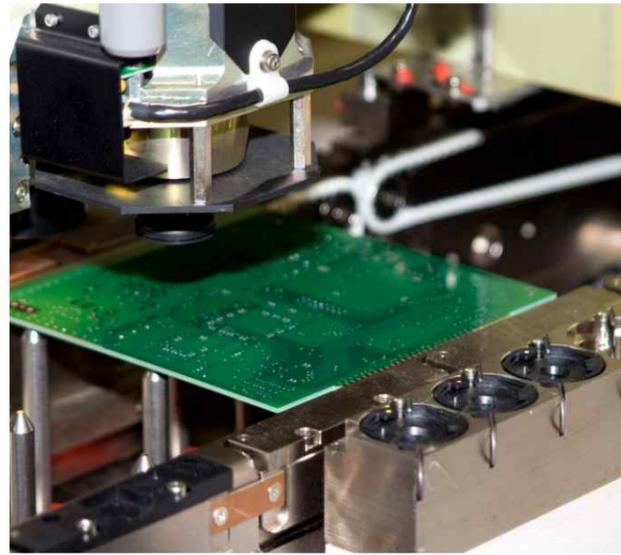
Reacting to the much-sought after relief provided to domestic manufacturers of tablets and personal computers and the issue of inverted duty structure, Ms. Debjani Ghosh, Vice President, MAIT and Vice President Sales and Marketing Group, Managing Director, South Asia, Intel said,



"It is significant to see the removal of SAD on IT products and the reduction of tax on technical services. These steps will enable the IT industry in India to accomplish more in the years ahead. The industry is now hopeful that all goods will be included under its purview.

The allocation of Rs. 1000 crore to facilitate start-up incubation in the technology space demonstrates the government's interest in boosting the sector. Furthermore, in the realm of direct taxes, announcements such as deductions under new section 32AD, additional depreciation in case of assets used for less than 180 days and additional depreciation for backward area notified by the Central Government have been assuring. The deduction for employing new workmen in factories has now been reduced from 100 workmen to 50 workmen. Additionally, GAAR provisions have been deferred for a period of two years and investments made upto March 31, 2017 will not to be subjected to GAAR.

Proposals on the direct tax side have also been extremely reassuring and serve to encourage foreign investment. "The proposal to lower the corporate tax rate from 30 percent to 25 percent over the next four years is indeed promising. As is the reduction in taxes on royalty and fee for technical services from 25 percent to 10 percent, aimed at encouraging foreign companies to provide their expertise in the Indian market" stated Mr. Ram N Agarwal, Past President, MAIT and Chairman & Managing Director, WeP Solutions Limited.



Local manufacturing is also expected to get a fillip with the establishment of the National Investment and Infrastructure Fund (NIIF). The NIIF will boost infrastructure projects and improve fund availability in the MSME sector. The proposed rationalisation of duty benefits on products like mobile handsets will boost local manufacturing of these products.

The emphasis laid on driving innovation by improving the National Skill Development Mission (NSDM) will also play a significant part in boosting the manufacturing sector. As Mr. J V Ramamurthy, Past President, MAIT and Chief Operating officer, HCL Infosystems Limited said to *MAITWire*, "The strengthening of the NSDM will result in the creation of high quality human resource base that can help introduce an approach of innovation and make India the manufacturing hub of the world".

There were however, some other issues that were represented by MAIT but not included in the budget. These included streamlining of imports including relaxation of SVB rigours, review of levy/clarify of BCD on specified telecom products, accelerated depreciation of all ITA goods, increase in rate of MRP abatement for ITA goods, lower duty structure for laptops/desktops and deemed export benefits in respect of ITA goods.

An extremely critical issue that needs to be addressed by the government as a priority is the duty differential scheme. The domestic demand for desktop computers, laptops, servers, storage and customer premises equipment (CPE) put together is approximately 20 million units a year. The demand for these products is extensively met through imports and the current volumes of local manufacturing do not warrant setting up a component ecosystem for these products. To encourage component manufacturing in India, it is imperative that the duty differential scheme is extended to these products. This in turn will ensure that the imports of finished products are immediately substituted through locally manufactured products. Towards this end, MAIT recommends that the FPS and FMS incentives be continued in the upcoming version of the Foreign Trade Policy with a minimum applicability of three years. There is also merit in including additional items such as servers, storage equipment and CPE. These products are high-end items with valuable intellectual property, therefore boosting local manufacturing as well as innovation, research and development in India.

Overall, it is clear that while there have been some strategic enablers to boost manufacturing, there are some areas that need to be reassessed and re-evaluated. MAIT will continue its efforts to represent member concerns that have not been considered this time around with the government.

PERSPECTIVE

An exports-led approach to making India THE electronics manufacturing hub

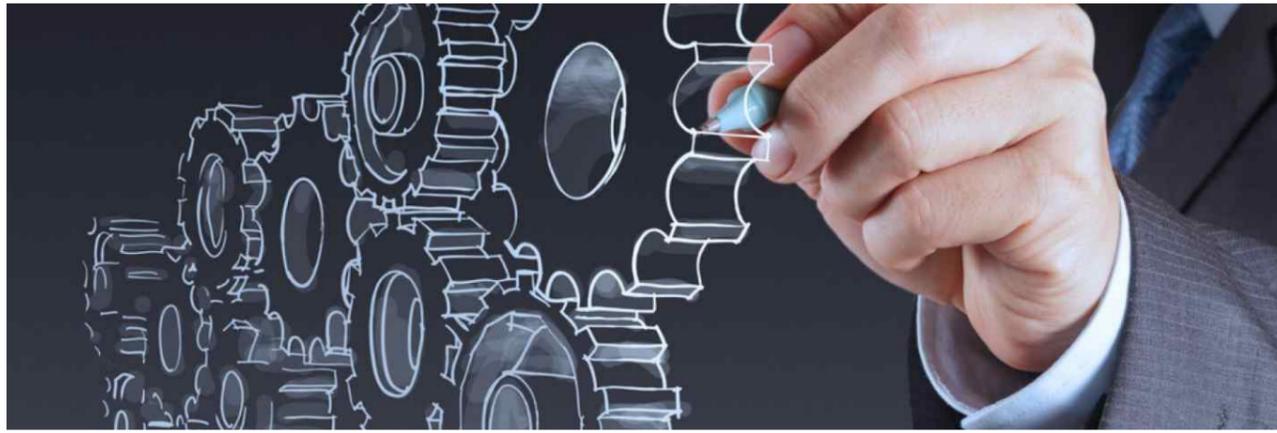
Navneet Kejriwal,

Manufacturing Committee Chairman, MAIT and Manufacturing Director, Dell India

The jury is still out on Prime Minister Narendra Modi's 'Make in India' vision that is aimed at attracting businesses from around the world to invest and manufacture in India. It certainly has been reassuring to hear the PM talk about enabling the manufacturing ecosystem for a globally recognized 'Brand India' that would be renowned for 'zero defect, zero effect'. In my view, this is the golden moment for us to position India as the next global factory, by spearheading a major expansion in the domestic electronics industry ecosystem by driving efficiencies of scale.

Establishing such an ecosystem will be essential to give India a self-sufficient and sustainable position in this intensely competitive, global electronic hardware marketplace.





The good news is that the Government of India has laid out its vision to grow electronics manufacturing in the country, based on the projected demand over the next five years. What really works in India's favor is its prevailing strength of having manufacturing facilities operating under major brand companies producing desktop PCs, laptops and servers.

At the same time there are a few challenges that I believe can also be viewed as potential opportunities. For one, several factories have been set up as assembly plants with significantly higher capacities to what is being utilized currently. These plants were built based on higher growth projections for the Indian market and this has not materialized. In effect, large capacities are lying idle and waiting to be utilized further.

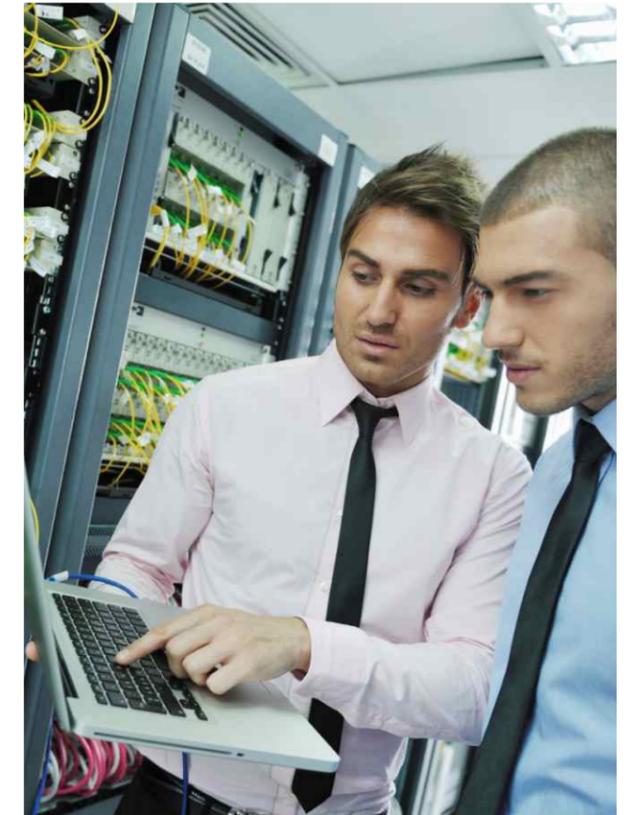
The second challenge facing domestic manufacturing is that a number of parts used by these plants are imported. In my view, the next phase of growth in electronics manufacturing sector needs to come from component manufacturers, to manufacture hard-drives, motherboards, memory & wireless modules, display panels and batteries, to name a few. Establishing such an ecosystem will be essential to give India a self-sufficient and sustainable position in this intensely competitive, global electronic hardware marketplace. Unfortunately, the domestic demand for electronics, specifically IT hardware equipment (PCs, laptops, servers and storage), is currently at around 13 million units a year. This, in value terms was around US\$ 13.3 billion at the end of 2013, still considered low to justify large investments required in setting up electronic key components and devices (such as hard drives, memory and motherboards).

Due to prevailing duties and tax structures, most of the component demand in India is met by imports. Operationally, domestic manufacturing demand is inadequate for India-based manufacturing units to produce on a mass-scale so as to spread the fixed costs to a level where the products are globally competitive. Motherboard manufacturers in China for example, are producing millions of units per month for the global market. This provides these manufacturers high capacity utilization with low burden of fixed costs per unit, giving them a competitive edge, globally.

A significant point to leverage for an exports-led approach is India's proximity to markets in the Middle-east, Africa, South Asia and within the Indian subcontinent, making it a location of choice, logistically, over other locations in Asia for these markets. This aspect, if supported by strong and effective provisions with regard to export incentives by the government, will make a compelling case for global players to set up their manufacturing hubs in India.

An independent survey conducted by Dell among 35 of its suppliers concluded on two key considerations for making investments in manufacturing - these were 'Demand' and 'Infrastructure'. While I believe export incentives would address the demand, infrastructure such as ports, roads, power and ease of logistics are the key for electronics industry to thrive. Infrastructure takes time to build and the accelerated momentum we are witnessing in the infrastructure sector, backed by a strong commitment from the new government has definitely been encouraging for potential investors.

In essence, an exports-led approach is the winning strategy for India's breakthrough in the global electronics hardware industry. It provides an immediate base of volumes for the existing assembly plants to maximize their capacity utilization and increase their global competency. The volume scale in turn can attract the attention of global players in the component ecosystem, driving investments from subsystems and device manufacturers. This would trigger an overall chain reaction and jumpstart the movement. This 'upward spiral' effect will be sustainable and could potentially transform the entire industry landscape in India within a short period of 2-3 years. The electronics hardware industry is dynamic, and constantly looking for opportunities to bring value to end users by making products more affordable. The supply chain framework, as we know, moves with such opportunities and high energy, as is evident from China's extraordinary success in the past decade. I truly believe that India can make this supply chain shift happen here and that indeed now is the time.



CONGRATULATIONS



Shri K. K. Sharma
has been appointed
Delhi Chief Secretary



Shri Jiwesh Nandan
has been appointed as
Joint Secretary-
Ministry of Defence



Shri Madhusudhan Prasad
has been appointed as
Secretary - Urban
Development



Shri Shankar Agarwal
has been appointed as
Secretary - Ministry of
Labour and Employment

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One97 Communications Pvt. Ltd.
www.paytm.com

Primatix Software Solution
<http://www.prematix.com>

Steelcase Asia Pacific Holdings India Pvt Ltd
<http://www.steelcase.asia>

Electronic Product Environmental Assessment Tool (EPEAT) Training

MAIT in partnership with the Green Electronics Council organized a half-day training program on EPEAT in February 2015, to support India-based manufacturers understand the EPEAT green electronics system.

Building on a combination of presentations and real world examples, the program introduced the EPEAT System & support services available and built familiarity on technical performance specifications that products must meet to be eligible for registration in EPEAT. Through the training, India-based brands had the opportunity to showcase their environmentally preferable products through the EPEAT system, both within the Indian market and abroad. Training on the EPEAT system enables Indian companies to support product registration and compete for business both in India and external markets, where huge purchasers (the US Federal Government, Ford Motor Company, HSBC, the University of California system, 36 US states), require EPEAT registration as a condition of purchase.

The training provided an overview of the EPEAT® system from product declaration through verification, including the business relationships involved (registration services, verification authorities, sliding scale fee structure). It also reviewed the environmental performance criteria of the standards that underlie EPEAT:

- IEEE 1680.1 standard for computers and computer displays,
- IEEE 1680.2 standard for imaging equipment, and
- IEEE 1680.3 standard for televisions
- IEEE 1680.3 standard for televisions

The program also highlighted the support options open to brands wishing to register for India - conformity assessment bodies, consultancy services, technical training opportunities.



Post-Budget Session & Networking Dinner

MAIT organized a Post-Budget Session & Networking Dinner between industry captains and senior Government officials from DeitY to facilitate a thorough analysis of the budget and to chart the future course of action.

M/s BMR Advisors made a detailed presentation on post-budget outcomes for the IT Industry on the occasion.



MAIT signs MoU with BIIPA, Korea

The MAIT SME Chapter signed a Memorandum of Understanding (MoU) with the Busan IT Industry Promotion Agency (BIIPA) to promote closer cooperation between Indian, Korean Electronics & IT manufacturing companies and to foster profitable partnerships between Indian and Korean SMEs. The MoU aims at mutual exchange and cooperation in the areas of business matching, technology & talent exchange and support & cooperation for IT Industrial development in both India & Korea.

The MoU was signed by Mr. Rahul Gupta, Chairman on behalf of MAIT SME Chapter and by Mr. Seo Tae-Geon from the Busan IT Industry Promotion Agency.

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UPCOMING EVENTS

National Conclave on IT & Electronics Manufacturing in India, April 24, 2015, Hotel Lalit, Mumbai, Maharashtra

MAIT and TAIT, supported by the Government of Maharashtra are jointly organizing the National Conclave on IT & Electronics manufacturing in India on April 24, 2015 at Hotel Lalit, Mumbai, Maharashtra. Shri. Devendra Gangadhar Rao Fadnavis, Hon'ble Chief Minister of Maharashtra, Government of India will be the chief guest and Shri. Subhash Rajaram Desai, Hon'ble Minister for Industries, Government of Maharashtra will be the guest of honor at the event. The event will provide a common platform for policy makers, IT Channel partners and System Integrators to discuss the opportunities for manufacturing at length. The conference will be a great platform to understand, gather information and knowledge about various business opportunities, discuss latest technologies, and investment opportunities available.

For sponsorship and further enquiry, contact Sanjay Singh, Deputy Director, Mob: + 91-9910990553 email: sanjay@mait.com

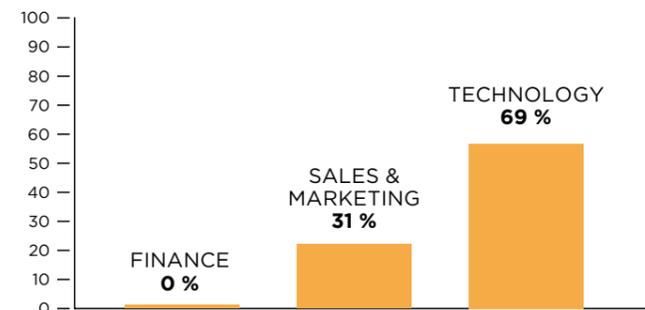
POLL BOOTH

What did you feel about the budget announcements for the electronics and hardware manufacturing sector?

- A. Enabling announcements
- B. Disabling announcements
- C. Overall positive but scope for more
- D. Neutral

Results of last poll

► **For SMEs to demonstrate robust growth, which area needs most attention?**





Taiwanese Inventec to set up facility in Chennai

- Inventec, supplier to Chinese smartphone manufacturer Xiaomi plans to use the India facility for assembling smartphones and other devices.

China's Huawei invests in Bengaluru R&D centre

- Huawei Technologies Co Ltd has invested US \$170 million in a research and development centre in Bengaluru that can accommodate 5,000 software engineers

Maxx to manufacture in Haridwar

- Mobile budget handset maker Maxx Moblink will start assembling and manufacturing mobile devices at its Haridwar plant by April 2015

Three Bengaluru based firms to invest in electronics manufacturing

- Three Bengaluru-based member-companies of the India Electronics and Semiconductor Association (IESA) have committed to invest 2,950 crore into manufacturing in India.
- Tessolve Semiconductor Pvt Ltd is investing 750 crore to set up an ATMP (Assembly/ Test/ Mark/Pack) plant.

Government clears electronics manufacturing proposals worth Rs 6,500 crore

- The government approved investment proposals from companies that include GE, Bosch, Nidec, Continental, Motherson Sumi, Calsonic Kansei, Tissol, Tata SED, Tejas and Panasonic who want to manufacture electronic goods in the country.

Intex to invest Rs 1000 crore to ramp up India business

- Intex Technologies, a mobile handset and consumer durables manufacturer, is planning to invest Rs 1,000 crore in the next fiscal year, apart from another Rs 500 crore to build a new smartphone plant in India
- Intex is in discussions with three state governments – Rajasthan, Uttar Pradesh and Uttarakhand – to finalize the location of its plant

Handset makers take lead

- Samsung to set up third manufacturing unit in India
- Samsung Electronics Co Ltd is in talks with Indian states about building a third manufacturing plant in the country,
- Spice has announced its domestic manufacturing plans in the form of a Rs 500 crore unit in Uttar Pradesh
- Samsung has also ramped up its mobile phone plant in Noida with an investment of Rs 517 crore
- India's third largest mobile vendor, Lava, too, will start assembling devices at its Noida factory from April and is planning to set up another factory at a cost of Rs 500 crore over three years.

C-Dot ready to manufacture low-cost 3G, 4G handsets

- The state-run Centre for Development of Telematics (C-DoT) is ready to manufacture affordable 3G and 4G handsets

Xperio Labs mulling Indian manufacturing unit

- Xperio Labs, an emerging market focused 'Devices and Services' company, is evaluating prospects of setting up a manufacturing unit in India.

Japanese printer maker Konica Minolta mulls setting up plant in India

- Konica Minolta plans to set up its first manufacturing unit in the country

Ericsson setting up second plant in India

- Swedish telecom equipment major Ericsson is starting its second manufacturing plant in Pune and will serve as an export hub for the company.
- Ericsson will invest \$15 million initially and the production is expected to start in 2016.

Lava to open local manufacturing facility in Noida

- Lava International will soon be opening a local manufacturing facility in Noida

Dell plans to expand manufacturing facility in India

- Dell is planning to expand its manufacturing facility in Chennai
- Dell has already invested US \$ 30 million in the Chennai facility

Taiwan keen on 'original brand manufacturer' model tie-up with Indian cos

- Taiwanese businesses have offered to partner with Indian companies on a unique 'Original brand manufacturer' (OBM) model as part of its industrial collaboration with India.
- Under this OBM model, Taiwanese companies are looking to set up manufacturing units in India and allow the partner Indian companies to put their brands on the products made in these facilities.
- These products with Indian brands could then be marketed within India. Taiwan is also open to the idea of providing marketing support to the Indian brand in other global markets.



Cisco tests 'Make in India' waters with \$5-b proposal

- US technology major Cisco has submitted a proposal to the government saying it is ready to invest \$5 billion over the next 5 years
- The money will be used to set up a production facility with contract manufacturing partners.
- Cisco has indicated that it could look at producing set-top boxes, IP phones, routers, and switching equipment.
- The facility could create 1,000 direct jobs and 10,000 indirect ones, according to the proposal submitted by the company.

AMD welcomes tie-ups for semiconductor production

- Chipmaker Advanced Micro Devices (AMD) will be open to partnering with companies for semiconductor manufacturing in India even as it plans to leverage strength in newer business areas including graphics and chip design in the country

Hitech Mobiles to start feature phone manufacturing in India

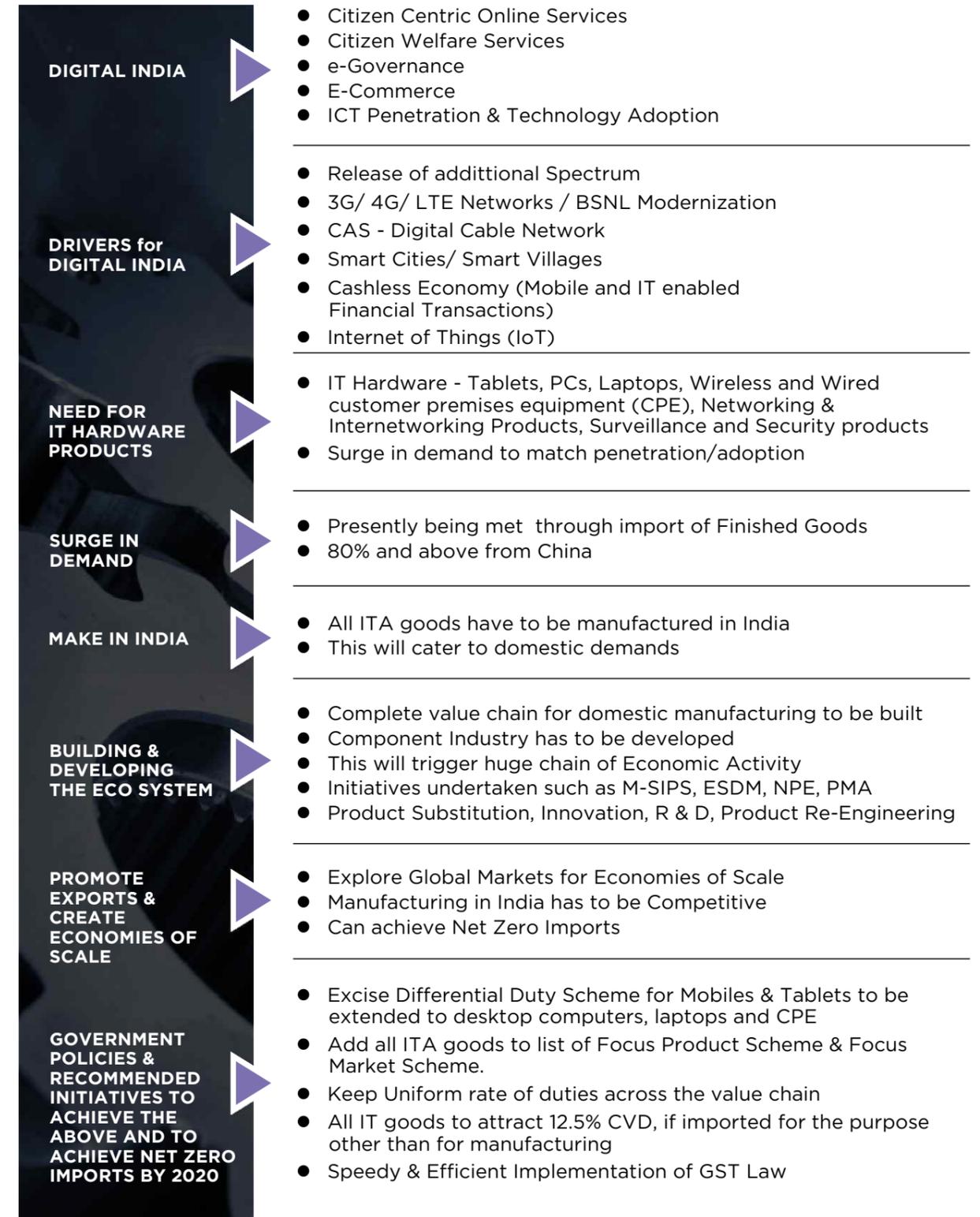
- Kolkata-based mobile phone maker Hitech Mobiles is looking to set up a mobile manufacturing plant in West Bengal with an initial investment of Rs 70-80 crore
- The company is also under discussions with a Chinese company, which will help it in setting up the manufacturing plant and will provide mobile hardware and components.

Dish TV plans domestic manufacturing of set-top-boxes

- India's leading direct-to-home (DTH) operator Dish TV is re-evaluating possibilities of domestic manufacturing of set-top-boxes.

BULLETIN

HOW 'DIGITAL INDIA' WILL LEAD TO 'MAKE IN INDIA'?





SMEs

Inputs from Mr. Rahul Gupta, President, MAIT SME Chapter

Contrary to expectations, there were no specific announcements to impact the SME sector in this budget. While there are several initiatives being taken by the government towards supporting local manufacturing through the SME segment, the sector needs specific benefits to help them close the gap with large manufacturers. Given below are some steps that could spike growth in the SME sector.

- Targeted funding schemes
- Special incentives for SME manufacturing
- Specific preferential market access for SMEs
- Exclusive manufacturing clusters for SMEs with the objective of developing a manufacturing eco system, similar to the auto industry

Going forward, there needs to be more focussed effort to build awareness amongst SME players on the benefits that they can avail as well as on education and skill development.

- SMEs could greatly benefit from government support for sales and marketing. This could be done by working jointly with the government wherein purchases are made from SME manufacturers.
- Incentives can also be provided for technology transfer from international companies to SMEs for local manufacturing.
- The duty structure could be altered to provide special benefits to SMEs undertaking local manufacturing
- SME funding must be encouraged
- Along with large manufacturers, SMEs must also be included as partners of choice for the on ground implementation of 'Make in India'
- Currently software development companies who are developing software for locally manufactured products are not recognized as SMEs. Given the scope of work that is likely to come up with the implementation of Smart Cities, these companies must be recognized as SMEs.
- More emphasis must be made on SME tax reforms. Currently VAT and Service Tax needs to be deposited to the government once the invoice is raised by the SME, irrespective of whether the SME has received payment from their customers or not. This becomes a huge burden on working capital requirements. It is suggested that registered SME organizations should be provided an extended period of 90 days for depositing these taxes.

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