

### By Kuhu Singh Abbhi

The government has been taking key initiatives to promote smartphone manufacturing and position India as a global manufacturing hub. A recent report by the Internet and Mobile Association of India (IAMAI) notes that India has the potential to manufacture 1 billion mobile handsets annually. Despite significant efforts and a huge potential, India's smartphone manufacturing growth remains sluggish. The country currently manufactures only around 250 million handsets every year.

A possible reason for the limited growth in the Indian handset manufacturing space is the lack of policy thrust on contract manufacturing. While these manufacturers hold the largest share in mobile manufacturing, government policies have not recognised their contribution to the industry. In a bid to encourage contract manufacturing, the government has recently amended its foreign direct investment (FDI) policy to attract foreign players and drive investments in the segment.

A look at the contract manufacturing market in India and the likely impact of the new policy amendment...

### Need for contract manufacturing

Smartphone vendors have partnered with contract manufacturing companies to produce large volumes of devices. These companies offer full manufacturing services including procurement, supply chain management, semi-knocked-down manufacturing, fully knocked-down manufacturing and finished goods logistics.

The biggest advantage of contract manufacturing is cost savings. Contract manufacturing helps companies that do not want to establish their own production facilities save substantial costs. Further, it provides companies more flexibility and increases productivity. For instance, they can enhance production when the demand for a specific good is high. Owing to these benefits, contract manufacturers have emerged as the favourable choice for manufacturing smartphones in the country.

### Current market scenario

The government's Make in India initiative has spurred contract manufacturing in India. Over 100 contract smartphone manufacturers have started operations in India. Xiaomi, Realme, Huawei, HONOR, Apple and Nokia are among the biggest handset vendors that have partnered with contract manufacturers.

Currently, the Indian contract manufacturing space is dominated by foreign manufacturers. In fact, the world's largest contract manufacturer, Taiwan-based Foxconn accounted for a 63 per cent market share in the Indian contract manufacturing space in 2018. It was followed by China-based HiPad Technology, which had a 12 per cent market share and US-based Flex with a market share of 7 per cent. Further, contract manufacturers accounted for 50 per cent of the handsets shipped in India during 2018, of which 82 per cent were manufactured by the top three players in the market – Foxconn, HiPad and Flex.

As far as clients are concerned, Foxconn's key clients in the Indian market include Xiaomi and Nokia. Further, HiPad is working with Realme and Xiaomi while Flex primarily manufactures handsets for Huawei and Honor brands.

Among handset vendors, Xiaomi, which recently achieved the feat of 100 million smartphone sales within five years, has been working with contract manufacturers to scale up production in India. The company has three contract manufacturing units in India in partnership with Foxconn, HiPad and Flex. Xiaomi meets over 95 per cent of its domestic demand from Foxconn, which reportedly has six dedicated production units for the vendor. Further, Xiaomi has partnered with HiPad for the manufacturing of its power banks in India. Meanwhile, Xiaomi's partnership with Flex began in March 2019.

US-based smartphone vendor Apple is working with the Indian arm of Taiwan-based Wistron Corporation, which started assembling iPhones in India in 2016. The company is not only manufacturing for the Indian market, but has also started exporting the iPhone 6s and 7 models from its facility in Bengaluru. Wistron is reportedly exporting almost 100,000 units of the two iPhone models to the European markets every month.

### Policy impetus

To reduce India's import dependency and increase the domestic handset manufacturing capacity, the government launched the Phased Manufacturing Programme (PMP) in April 2017. While the PMP succeeded in encouraging some companies to assemble their handsets in India, the larger ecosystem comprising vendors and suppliers of high-value components and assemblies did not shift to India.

Recently, the government launched the National Policy on Electronics (NPE), which recognises mobile device manufacturing as the largest segment, accounting for one-third of the manufacturing sector. While the PMP has been pushing to create an Indian electronics manufacturing ecosystem, the new the NPE is an export-oriented policy that targets production of 1 billion mobile handsets including the export of 600 million handsets by 2025. However, both the PMP and NPE do not specify any provisions for contract manufacturing. The country's FDI policy too had no mention of contract manufacturing. In this scenario, incentivising contract manufacturers to scale up production in India is critical to achieve the target of producing 1 billion mobile handsets annually as specified in the NPE, 2019.

In view of this, the government has recently allowed 100 per cent FDI in contract manufacturing under the automatic route. The move recognises manufacturing through contracts as an equal contributor to the government's Make in India initiative. Further, the government has approved the inclusion of contract manufacturing in the mandatory 30 per cent local sourcing norm over a period of five years.

As per industry experts, allowing 100 per cent FDI in contract manufacturing will help augment India's manufacturing capacity. In fact, the move is expected to increase the share of the manufacturing sector in the country's gross domestic product from 16-17 per cent at present to around 25 per cent by 2022. Further, it will help in positioning India as a favourable destination for foreign handset players, encouraging them to make in India, sell in India and export through India. Some industry experts are of the opinion that the move has been taken at the right time as contract manufacturers are searching for new manufacturing locations to increase their global presence in the face of the ongoing US-China trade war. Several global brands that depend on contract manufacturers for production will benefit from the move. For instance, Apple will be able to meet the government's local sourcing norms easily because it is already assembling iPhones in India through contract manufacturers.

## Outlook

Going forward, the rising demand for handsets coupled with the government's policy push is expected to provide the much-needed impetus to contract manufacturers in India. Existing contract manufacturers have already started devising plans to tap these upcoming opportunities. Recently, Wistron submitted an investment proposal worth Rs 50.91 billion to scale up its manufacturing capacity in India. The proposal has been approved by the Ministry of Electronics and Information Technology and is now due for cabinet approval.

Further, Foxconn has submitted a proposal worth Rs 25 billion to strengthen its position in the Indian market. The cumulative investment package of around Rs 75 billion is expected to bring in benefits worth Rs 10 billion for Wistron and Rs 5 billion for Foxconn. Moreover, Wistron plans to soon begin manufacturing iPhone 8 in the country, while Foxconn plans to support the ambitious manufacturing plans of Xiaomi and Nokia. The successful implementation of these plans is going to help position India as a favourable investment destination for contract manufacturers.

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