

SectorVector

Reading the topical trends

July 2022

Signal change

As mobile phone production dials up, India's import dependency on the wane

Production of mobile phones in India has taken a leap after the government introduced the Phased Manufacturing Programme (PMP) and the Production Linked Incentive (PLI) scheme, reducing the country's imports and dependency on China.

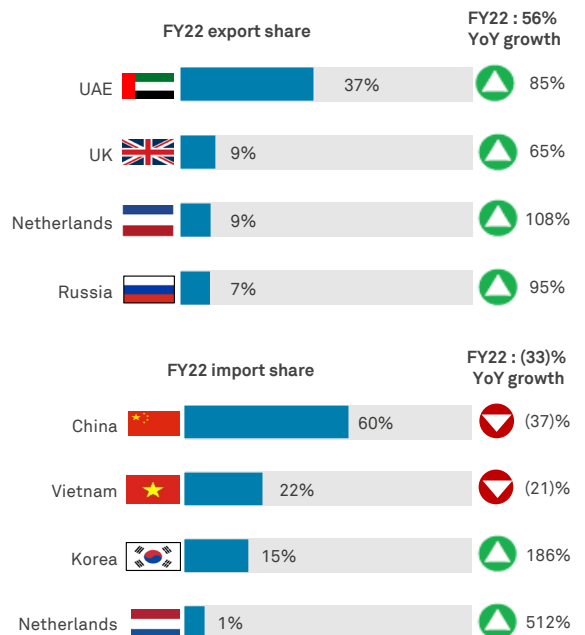
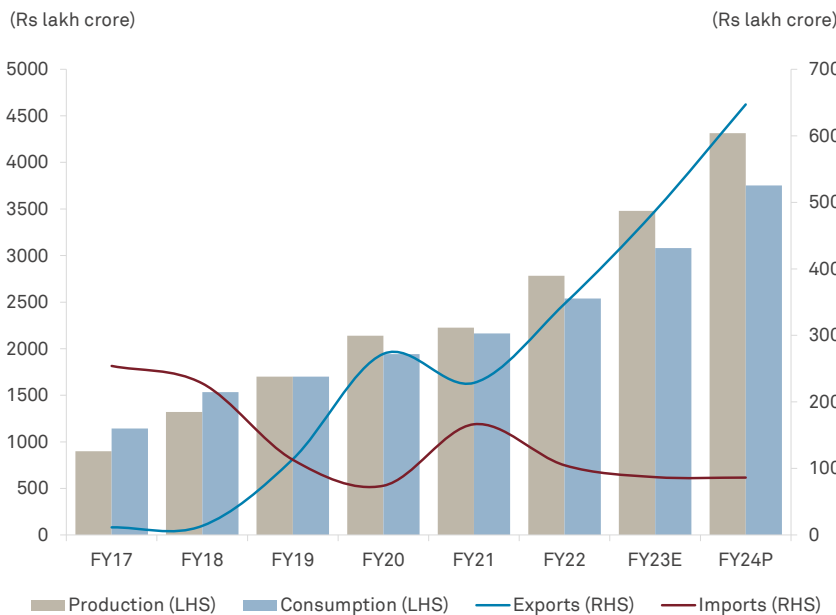
After logging a 33% compound annual growth rate (CAGR) between fiscals 2016 and 2021, domestic mobile production is estimated to have grown 24-26% in fiscal

2022. Despite the ongoing chip shortage, three of the global manufacturers met PLI production targets during the fiscal.

CRISIL Research expects the growth momentum in production to sustain, with a 22-26% CAGR between fiscals 2022 and 2024 to Rs 4.0-4.5 lakh crore in value terms. The growth will be led by the PLI scheme, which is in the second year for most players.

As a corollary, the country's mobile imports decreased ~33% on-year in fiscal 2022. Dependency on China reduced to 60% from 64% in fiscal 2021, and is expected to fall further in the medium term. However, with rising production, imports of electronic components essential for mobile assembling/manufacturing also increased 27% on-year.

Mobile manufacturing on the cusp of a boom; dependency on China reducing



Source: MEITY, DGFT, CRISIL Research

With domestic output rising, India has become largely self-sufficient on the consumption front. In fiscal 2022, the country saw a 15-20% increase in mobile consumption to ~Rs 2.5 lakh crore. A fall in the lifecycle of the mobile, increasing digitalisation, and easy financing terms were the major factors that contributed to the growth. We expect the momentum to continue this fiscal and in fiscal 2024, boosting consumption to Rs 3.5-4.0 lakh crore by fiscal 2024.

Last fiscal was significant for the country as mobile exports surged 56% on-year with support from PMP and PLI. The exports are expected to grow further and touch Rs 1.0-1.2 lakh crore over fiscals 2023 and 2024.

Share in global exports insignificant, but rising

The top 5 mobile importing countries accounted for ~50% of global handset imports in calendar 2021, with China and Vietnam meeting the bulk of their demand.

The US was the largest importer of mobile phones, accounting for ~20%, followed by Hong Kong at 15% and Japan at 6%. China alone met 79% of the mobile import demand of the US and Vietnam 16%. India's share was negligible at 0-1%, and its share in the mobile import basket of the top five countries remained low, too.

While free trade agreements and geopolitical agreements play a huge role in import/export dynamics, India's share, though on the rise sequentially, has remained minuscule compared with neighbouring nations.

Despite manifold increase in mobile exports, India's share in global basket minuscule

Mobile trade dynamics		Top world importers (% share)				
		USA	Hong Kong	Japan	Germany	UAE*
Top world exporters (% share)	China	79%	86%	89%	67%	63%*
	Vietnam	16%	1%	6%	11%	21%*
	India	0%	0%	1%	3%	9%*
	Total global exports	20%	15%	6%	4%	5%

Note: *UAE data as of calendar 2020. Rest data as of calendar 2021
Source: ITC market access map, CRISIL Research

Moreover, India's exports largely comprise low-end mobile phones, priced below Rs 10,000. But major markets, such as the US, Hong Kong and Japan import mobile phones priced upwards of Rs 15,000 because of their high per capita income, which boosts affordability, and established coverage of 5G services, which lags in India.

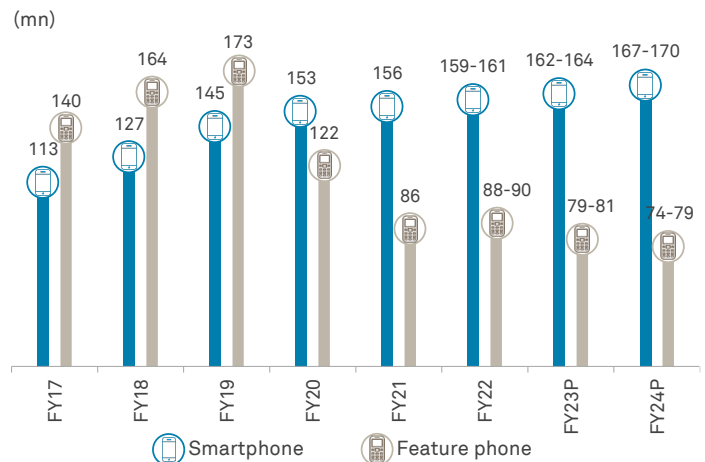
However, we expect the exports to receive a leg-up in the medium term with foreign majors, such as Samsung and Apple, and domestic players ramping up their manufacturing and assembling in India.

Share of 5G smartphone low due to high price; festival season to offer some cheer

Over fiscals 2017-2022, smartphone sales in India surged from ~113 million to 159-161 million. Shipment of feature phones, on the other hand, fell to 88-90 million from ~140 million during the period. The decline is attributed to a three-fold increase in 4G subscribers. In fact, 4G feature phones cushioned the free fall in feature phone shipments.

Also, the share of 5G smartphones in overall handset sales, which was low at 15-20% in fiscal 2022, is expected to pick up substantially only by late fiscal 2023 due to affordability issues.

Smartphone shipments to grow; 5G handsets to be in focus



Source: CRISIL Research

Prices of 5G smartphones, though, are unlikely to decline in the near term as we do not expect any let up in semiconductor chip shortage due to prolonged Russia-Ukraine conflict.

Any relief is possible only in the festival quarter this fiscal, when vendors are likely to clear the stock.

Between fiscals 2022 and 2024, smartphone shipment is expected to log 1-3% CAGR, driven by 2G/3G-to-4G conversions and a top-line 5-10 million 4G-to-5G subscriber upgradation in fiscal 2024. Consequently, feature phone shipment is expected to decline 7-9% on CAGR basis between fiscals 2022 and 2024.

The chip shortage and the Russia-Ukraine conflict remain the key monitorables.

Analytical contacts

Aniket Dani

Director
CRISIL Limited
aniket.dani@crisil.com

Sehul Bhatt

Associate director
CRISIL Limited
sehul.bhatt@crisil.com

Shreenath Patki

Research Analyst
CRISIL Limited
shreenath.patki@crisil.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfill your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.