

14th world Electronic Forum India 2008

EMS Industry Trends/challenges

Presented by

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prefer to dwell upon...

➤ Why OEMs need EMS partners

1. Global Scenario
2. India opportunities
3. Essential recipe for the EMS business
4. India-Weakness and Strength
5. India advantage
6. Tandon Group's experience
7. Need of the hour

Why OEMs need EMS partners

Global Perspective

- **Financial benefits**
 - Margin
 - ROIC
- **Business agility**
 - Accelerate new products TTM
 - Focus resources on core competencies
- **Increased customer satisfaction**
 - High quality
 - Increased service level

India Perspective

- **Take advantage of growing India market opportunities**
 - Fast growing telecom, IT, and consumer electronic demand
- **Technology alignment**
 - Proximity with growing India based SW & HW design centers (OEM and partner)
- **Source for global competitive manufacturing**
 - Balance global manufacturing risks

1.Global Scenario

- Moderately healthy EMS, ODM growth
- CAGR of 11.9% in EMS and 11.4% in ODM
- Strong growth in Medical, communication and computer sectors
- Production around \$ 1300 Billion plus
- Outsourcing at over \$ 25 0Billion in 2006, to grow to \$ 425 Billion plus by 2010
- 55% in Asia , 25% in Americas, 20% in Europe
would shift to
- 69% in Asia, 17% in Americas and 14 in Europe by 2011
with
- ODM production concentrating at
- 96% in Asia, 2% in Americas and 2% in Europe
- Stabilization expected at 90% Asia , 5% Americas & 5% Europe
- Defense electronics requirement growing steadily worldwide

2.India Opportunities

- Shift to 96% ODM in Asia by 2011 will open up India
- Soft skills / embedded skills already established
- Need to grow exponentially
- \$ 14 Billion level electronic equipment production in 2006 has already reached \$ 20 Billion by now,
- Defense requirement on electronics growing exponential
- Defense procurement policies opened up
- Offset policy in place for larger private participation with joint venture opportunities

Procure/acquire equipments worth around Rs 50000 Cr in the next 5 years

offset clause - mandatory for the Foreign supplier to source 30to 50 % of the value of contract from India - mfg outsourcing, s/w devlpt, investment in R& D facility or support services.

Estimated Offset opportunity - Rs 20000 Cr for the next 5 Years to be fulfilled by the Indian Industry.

- Huge opportunity- next three years

3. Essential recipe for the EMS business

- In the current scenario, no use talking about
quality, on time delivery and continually reducing price
these are in any case taken for granted

So what is expected ..?

- Customer centric business models
- Better value add solutions, end to end including design, piggyback, next generation products etc.,
- Maximize local supply chain
- FG warehouses –JIT hub
- Vendor managed inventories
- Vertical integration where high volumes involved

4.India-Weakness and Strengths

W.....

- Component industry not significant
- Large volume plastics and sheet metal – still a question mark
- Logistics not world class
- Policies / procedure still complex, though much simplification done in the past
- Tariff structure –too many changes – geographically centered – unhealthy regional competition

S.....

- Strategically located for export business with East Europe, Far East, Middle East and Africa (EMEA Countries)
- India market for ITC , consumer and automobiles growing fast
- Soft skills established
- Adequate skill for engineering services for ODM requirement
- Cluster formation realized

5. India advantage...

- Trillion dollar economy
- Abundant real estate - 3.3 Million sq. Kms
- No human resource shortage - over 1.1 billion people
- Stable and Empowered independent Judiciary System
- 9.4 % GDP growth.....Will the global economy scenario affect us ..?
- Per capita Income Rs. 29382
- Life expectancy - 65 years
- Foreign exchange reserves – over \$ 200 billion...What is the effect of FII withdrawal from the securities.....?
- Literacy rate - > 67%
Second largest producer of graduates in the world
About a million graduates every year, half of them engineers
Highest number of foreign students in USA.

5. India advantage

➤ 25% growth on IT Sector exports

➤ Potential R & D hub

Ranks 4th in building the super fast computer-

HP Cluster platform 3000 BL 460 system-

117.9 teraflop or trillions of calculations per second

➤ Fast growing outsourcing Industry .. Effect of slow down and possible policy changes ..?

Market Advantage

Accelerated annual consumer demand -

- 1 million Cars, 1 million new houses
- 5 million computers 6 million credit cards
- 12 million TVs 300 million plus mobile phones
- Growth of more than 20% in all the sectors.....minor dent expected
- World's back-office services: \$ 15 billion, growing at 30% plus
- Over 150 Million middle class population with aspiring purchasing power,
- Expected to touch 300 Million by 2010

6. Tandon Group's experience

- 30 years of rich experience in tech. manufacturing for predominantly export markets
- Learnt the skill of training large workforce for manufacturing IT hardware products like

Magnetic heads for FDD,
HSAs for HDDs,
Stepper and Spindle motors,
SMPS of various caps.

Realized the significance of EMS in 2000

- Moved on to EMS with memory modules, STBs, Amplifiers etc.,
- Ensured cost-effective and scalable solutions
- Creative business models including EMS, Build /operate /transfer (BOT), JV
- Participated with India government agencies to define SEZ plan and policy and procedural simplification

Customer case study...

OEM Challenge

A telecom OEM needed to establish a presence in India.

Logistics and Import duties from the nearby superpower EMS player added to cost.

New contract bids favored locally produced equipment

- *Syrma (Tandon)Solution*

Syrma weighed the tax/incentive options.

Built final integration manufacturing line.

Local sourcing of equipment reduced capital outlays.

Core Customer Team Established at Syrma –

Team including workers were on-site at OEM facility in China to initiate and launch the transfer. Seamless materials localization

Joint Syrma / OEM vendor development team qualified key India based suppliers.

...Customer case study

Improvement in the Customer Metrics

Revenue, Margins, Market share and customer satisfaction

Business Impact

OEM won new India service provider market share

- *25 day lead time reduction*
- *Reduced logistics, taxes / tariffs, and inventory in the channel*
- *Improved OEM margin / lower costs*
- *Key BOM commodities achieved CR of 5% to 10% in India versus existing suppliers*

7. Need of the Hour

- Concentrate more on ODM scenario
- Partnering right from the concept stage
- Blue colored workforce, compulsory training on all Japanese techniques
- White colored , more based on design and application engineering
- Concentrate on partnering to grow sheet metal and plastics needing heavy investment
- Participation in manufacture of mother equipment than the terminal devices

Integrating with global Value added chain thru EMS

- Growth – only thro' Volumes
- Volumes come from export trade only
- Consider the SEZ /EHTP Scenario
- SEZ Best suited for ICT products – ITA items
- Establish sufficient cap. for high volume exports
- At the same time do not loose the Indian market, not so volume conscious.
- Almost all of the sales qualify towards export obligation, no worry on negative NFEE
- EHTP best suited for consumer electronic products
- Capturing the India market thru concessional duties of end product

Special Economic Zones

- Consider the SEZ scenario
- Stable policy framework thru the Parliamentary Act –
A true single window concept
- Attractive direct tax break—15 years
- No indirect taxes - Lowest transactional costs
- No restrictions to participate in India market
- No restrictions on operational activities
- Unique Rules across the country
- Self certifications procedure by the units
- Individual's accounting practices accepted- no cumbersome book keeping
- Manufacturing friendly atmosphere
- Min, requirement of land – 10 hectares only for hardware manufacturing – easily procurable – No R and R hassl

Hardware technology Parks

- Any where in India
- No min. land requirements
- Tiny rented premises also is enough for system integration
- Single window mechanism
- Indirect tax relief
- Local sales with duty concession
- Extension of Income tax relief beyond 2009..
- Strong recommendations in place

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Thank you

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