

COVER STORY

VAT: The Rollout And The Fallout



India ushered in one of its biggest indirect tax reforms on 1 April. Since then, there has been both angst and chaos. Will it get any worse? How flawed is the system that has been implemented so far? And, is the fuss worth all this? BW brings you the impact of the rollout across India.

[Read >>](#)

[Share your comments](#)

IN DEPTH

Small Size, Big Ambition

Indian electronic manufacturing service companies have doubled their capacity in three years. Now, their eyes are set on the global stage. But these companies have a long way to go before they can match their Chinese counterparts.

[Read >>](#)




IN VOGUE

All The Presidents' Man

Subroto Bagchi, COO, Mind-Tree Consulting, takes a trip back in time to study the varied styles of the bosses who have deeply influenced him.

[Read >>](#)



Businessworld B-School Toolkit

WEB EXCLUSIVES

FINE PRINT

Polygamous Corporate Marriages

Ranjeev Dubey on preserving shareholder agreements despite changing partners.

[Read >>](#)

EMPLOYEE DEVELOPMENT

Measuring The Future

Prometric CEO Michael Brannick on the importance of testing and assessment.

[Read >>](#)

STOCK SENSE

For A Few Barrels More

Oil prices are threatening to hijack global growth. Will the price tide turn?

[Read >>](#)

in depth

CONSUMER ELECTRONICS

Small Size, Big Ambition

Electronic manufacturing service firms are making an impact at home. But going global is a different ball game.

NANDINI VAISH

[Feedback to this article](#) | [e-mail this article](#)


Vikas Gupta of Bigesto believes that India's EMS vendors can soon rival the Chinese, at least in some areas

DINESH KRISHNAN

The heart of India's 9-million-sets-a-year television industry lies in the Noida-Greater Noida region, near Delhi. Within a 20-square kilometre radius are located some 10-odd companies that manufacture televisions for many of India's best-known labels - LG, Samsung, Akai, BPL, Onida, Videocon, etc. The biggest of them all, somewhat presciently named Bigesto four years back, makes close to one million TVs a year. Bigesto's roster of clients includes LG, Onida, Akai, BPL and Videocon. Then there's Dixon Utilities, which makes 8.4 lakh TVs a year, while a slightly smaller player like Calcom makes 7.5 lakh TVs annually. Even a smaller one like Evershine makes 3.6 lakh TVs annually. So far, most of this capacity has catered to the domestic market, with negligible exports.

Significantly, many of these companies believe that they are on the threshold of something big. And therein hangs a story that has gone mostly unnoticed in India's consumer electronics boom - that of an emerging electronic manufacturing services (EMS) industry that has more than doubled in size in the last three years. (EMS is a term used by the electronics industry to define what is essentially contract manufacturing. Here the complete design of the product is provided by the principal, which a third-party manufacturer puts together.) And while many of the players are thrilled about their growth, they add that the real opportunity lies in the markets abroad. In fact, many of the players who have been sending small shipments abroad feel that over time - read the next five-odd years - they could scale up

enough to have a significant global presence and also, maybe, rival China's gargantuan EMS business, at least in some areas (See "The Long March").

EMS evangelists like Bigesto executive director Vikas Gupta say that though TCL is the world's largest manufacturer of TVs with curved picture tubes, there is no reason why that position can't belong to an Indian company. With a capacity of 14.4 million TVs, TCL today dwarfs Bigesto. Dixon chairman Sunil Vachani adds that India could someday emerge as the EMS backyard of the world.

Such statements need many qualifiers. Both Gupta and Vachani are acutely aware that as volumes have grown, margins have fallen sharply, making it difficult to plough large sums of money back into the business for expansion. Then, even though manufacturing of other electronic items such as microwave ovens, DVD players, printed circuit boards and washing machines are slowly being outsourced, most of the growth has taken place only in TVs and, to some extent, in air conditioners. In comparison, China makes the whole gamut of electronic goods in huge numbers. It makes 80 per cent of the world's DVDs, 30 per cent of TVs and 33 per cent of mobile phones.

Yet, this doesn't mean that the premise of becoming global in scale is entirely fanciful. The way the Indian EMS business has grown in the last few years is sufficient indication of its potential.

You could say that the rise of the EMS business in India is entirely incidental. In China, it blossomed because the government was doling out huge incentives to companies to set up manufacturing facilities - it had little to do with the size of the domestic market. Conversely, in India EMS took off only when local volumes reached a certain size. Also, as Calcom chairman S.K. Malik points out, companies like TCL and Konka started out as EMS outfits and were almost entirely focused on exports from day one. In comparison, the legacy of the Indian companies has been very different. None, save Calcom, started out being an EMS outfit - they became one somewhere along the way.

The Backroom Boys					
COMPANY	TURNOVER* (RS CRORE)	INSTALLED CAPACITY (UNIT LAKHS)	CAPACITY PLANNED (UNIT LAKHS)	FURTHER INVESTMENTS** (RS CRORE)	PRODUCTS- KEY CLIENTS
ADVENTECH	50¹	AC - 6	—	—	AC- Carrier, Hitachi, Amtrex
BHURJI SUPER-TEK	50	AC - 3.6	AC - 3.6	7.5	AC- Hitachi, Haier
BIGESTO	700	TV-30, PCB-15, DVD-5 AC-2, Microwaves-3	TV - 10 PCB - 10	50	TV-LG, V'con, Onida, BPL, TCL AC- LG
CALCOM VISION	90²	TV - 7.5	—	—	TV-LG, Daewoo, V'con, BPL, Haier, Onida
CLEARLINE APPL.	40	AC - .65	AC - 1.2	.5	AC-Voltas
DIXON UTILITIES	300³	TV - 8.4, PCB -19.2, DVD - 7.2, AC- 3.6	DVD - 2.4 Mpeg cards - 12	10 (in 2 years)	TV-LG, Philips, TCL
EVERSHINE	300	TV - 3.6, AC - 1	TV - 1.8 WM - 1	—	TV-LG, Philips AC-LG, Carrier
GENUS	2.73	TV - 5	WM - 3	22	TV-LG
HOTLINE	400	TV - 30	—	—	TV-LG, Samsung, BPL, Onida, V'con
INTEC	112	AC - 1, TV - .6	AC - 2	23.5	AC-Samsung, Emerson TV-Onida, Samsung
KINGER	50⁴	TV - 3	TV - 2	2	TV-Haier, T-Series
NOBLE (AIRVISION)	265	TV - 18, PCB - 13.2, Moulded body - 10,000 tonnes	TV - 12, AC, Microwaves, DVD	50	TV-LG, Philips, Thomson TCL, BPL, V'con
OSCAR	200	TV - 3.6, Servo cards 36, VCD + DVD - 3.6	Servo cards - 1, VCD + DVD - .20	50	Servo cards-Philips DVD-LG
RELAN	160	AC - 1.4	AC - 7.2	25	AC-Samsung

*Turnover includes bill of material costs ** In 12 months, V'con = Videocon
¹Includes Rs 20 crore of exports ²Includes Rs 10 crore of exports ³Includes Rs 30 crore of exports ⁴Includes Rs .5 crore of exports Source: Industry

For example, the Vachanis of Dixon own the Weston label. In the 1980s, Weston was a big TV brand, but the fierce competition of the 1990s swept it off shop shelves. The family then promoted Dixon, and almost entirely vacated the branded TV business. (Weston still sells, but in negligible numbers in rural India.)

Again, Bigesto was promoted by the P.G. Group, which had been set up by Vikas' father Pramod Gupta in 1977 to make components for black & white TVs. P.G. used to sell to big brands such as Weston, Televista and Beltek. But as these began to flounder, threatening to take their vendors down with them, Pramod Gupta diversified into manufacturing TVs. What was of course common to all these companies was that their factories were set up in areas like Greater Noida - hence the cluster - that offered substantive tax incentives. For most of these companies though, the incentives have now run their course.