



DURABLES

April 2010

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Advantage India

Growing young population

Indian population in the age group of 15 to 59 forms the real consumer base for durable companies. This population is estimated to grow to 800 million by 2016.

Evolving lifestyle

Earlier, replacement cycle for television was nearly nine years, and for domestic appliances, it was 12 years. This has now reduced to approximately four to five years. Moreover, the faster rate of technology obsolescence has reduced technology cost, thereby motivating Indian consumers to opt for an earlier replacement.

Growing household income

As per a recent study, household income in the top 20 boom cities in India is projected to grow at 10 per cent annually over the next eight years, which is likely to increase consumer spending on durables.

Easy consumer credit

With the emergence of concepts such as quick and easy loan, zero equated monthly installment (EMI) charges, loan through credit card, loan over phone, it has become easy for Indian consumers to afford more expensive consumer goods.

Sources: Population and Human & Social Development FACTS - I, *National Commission of Population website*, <http://populationcommission.nic.in/facts1.htm>, accessed on January 04, 2010; Shailesh Dobhal, "Top 20 cities hold keys to urban growth," *The Economic Times*, 8 August 2008.

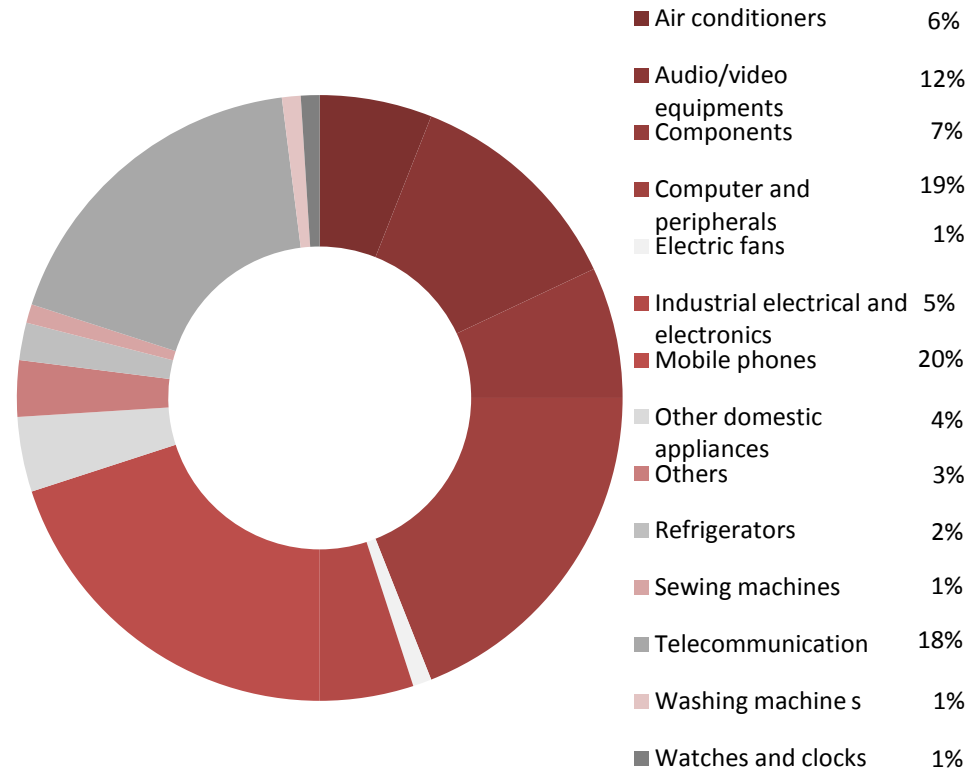
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Market overview ... (1/2)

- The Indian durables market, with a market size of US\$ 27.38 billion in 2008–09, has grown by 7.1 per cent over the previous year.

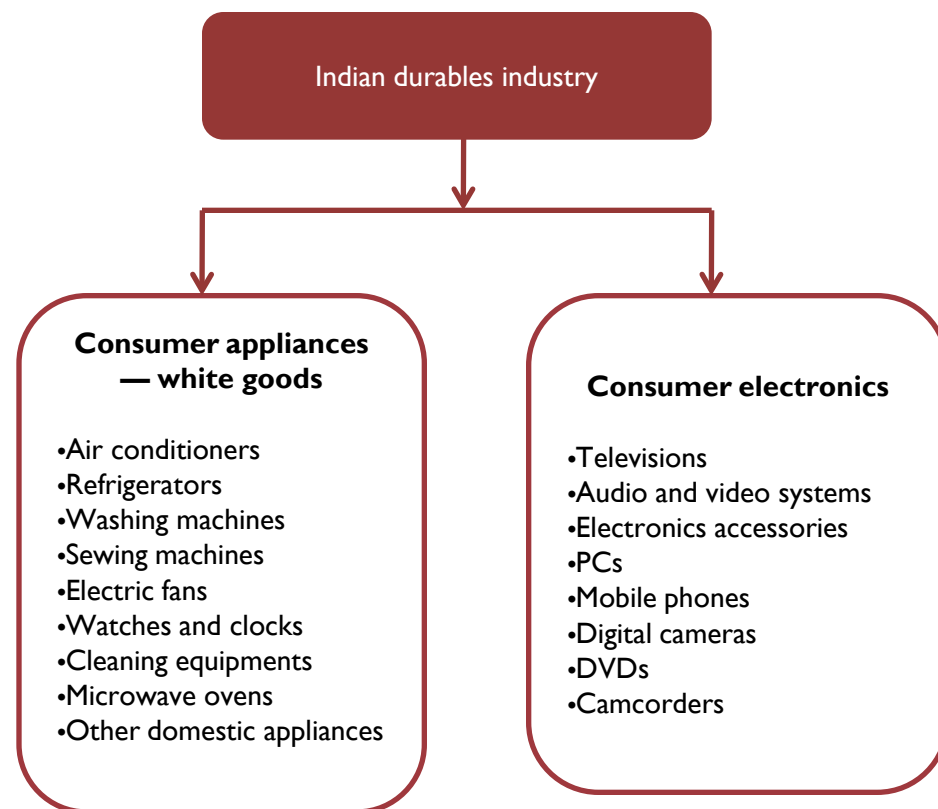
Indian durables industry - segments



Source: Electronics and appliances manufacturing - the India opportunity, Ernst & Young, 2009

Market overview ... (2/2)

- The market is primarily categorised into consumer electronics and consumer appliances (also known as white goods).
- The compound annual growth rate (CAGR) for the industry has been recorded at 20.3 per cent between 2004 and 2009.



Consumer electronics

- Production in the consumer electronics industry has been estimated at US\$ 6.7 billion in 2009–2010.
- The segment registered a growth of 18 per cent in 2009–2010 from US\$ 5.5 billion in the previous year.
- The consumer electronics segment contributes about 27 per cent to the total hardware production in the country.

Source: Department of Information Technology, Minister of Communication & IT, Government of India.

Consumer electronics — products

Colour TV (CTV)

- CTV is the largest contributor in this segment and the market has been estimated at 15.15 million units in 2009–2010.

Liquid crystal display (LCD)

- LCDs are perceived as high-end products.
- The LCD market has been estimated at 0.8 million units, registering a growth of over 130 per cent during 2008–09 over the previous year.

Digital video disc (DVD)

- Indian DVD market was estimated at 6.2 million units in 2009.

Direct-to- home (DTH)

- Due to the expansion of DTH and introduction of conditional access system (CAS) in the metros, the set top box (STB) market is growing rapidly.

Multimedia mobile phones

- Multimedia mobile phones have been growing at a fast rate, from 800,000 units in 2008–09 to 1.8 million units in 2009–2010.

Sources: “Consumer durables: Durable enough for tough times,” *The Economic Times*, December 13, 2009; Department of Information Technology, Minister of Communication & IT, Government of India.

Consumer appliances

- The consumer appliances market is estimated at US\$4.34 billion, with imports valued at US\$ 1.22 billion.
- Air conditioners (including industrial and office conditioners) constituted 38 per cent of the consumer appliances market, followed by refrigerators at 14 per cent, electric fans at 7.5 per cent, washing appliances at 7 per cent and sewing machines at 5 per cent.
- Most imports are in the finished goods categories such as watches, electric coffee makers, food grinders, electric heaters, etc.

Key players* ... (1/2)

Company	Product category
Blue Star Ltd	Air conditioners, refrigerators and specialty cooling products
Daikin Air Conditioning India Pvt Ltd	Air conditioners and cooling equipment
Godrej & Boyce Mfg Co Ltd	Refrigerators, air conditioners, washing machines, microwave ovens, DVD players, digital imaging products and audio visual products
Hitachi Home & Life Solutions(India) Ltd	Air conditioners and refrigerators
LG Electronics India Pvt Ltd	Televisions, audio visual solutions, computers, mobile phones, refrigerators, washing machines, microwave ovens, vacuum cleaners and air conditioners
MIRC Electronics Ltd	LCDs, washing machines, DVD players, air conditioners, microwave ovens, mobile phones, projectors and display products

Key players* ... (2/2)

Company	Product category
Philips Electronics India Ltd	Televisions, home theatre, DVD players, audio products, personal care products, household products, computers and phones.
Samsung India Electronics Pvt Ltd	Televisions, home theatres, DVD players, mobile phones, digital camera and camcorders, refrigerators, air conditioners, washing machines, microwave ovens and computers.
Sony India Pvt Ltd	Televisions, projectors, DVD players, audio systems, home theatre, digital camera and camcorders, computers, mobile phones, in-car entertainment, video gaming products and recording media.
Videocon Industries Ltd	Televisions, DVD players, microwave ovens, refrigerators, washing machines, air conditioners and power backup solutions.
Whirlpool of India Ltd	Refrigerators, washing machines, microwave ovens, water purifiers and power backup solutions.

*This list is indicative.

Key trends

Single-brand retail outlets

Exclusive stores or single-brand retail outlets have started gaining more focus, as companies are realising better profit margins and volumes from such stores.



Samsung expects exclusive outlets to contribute over one-fifth of total sales in 2010, an increase of 16 per cent from 2008.



LG Electronics expects one-fourth of its sales in 2010 through single-brand outlets.

Identifying new business segments

With the increasing income profile of the Indian consumer, the durables industry players are looking at new product segments.



Philips India has plans to focus on delivering a cinematic experience from its advanced electronics product ranges.



LG Electronics has plans to make its newly launched 'Jazz Theatre' range of LCD TV its flagship product in India.

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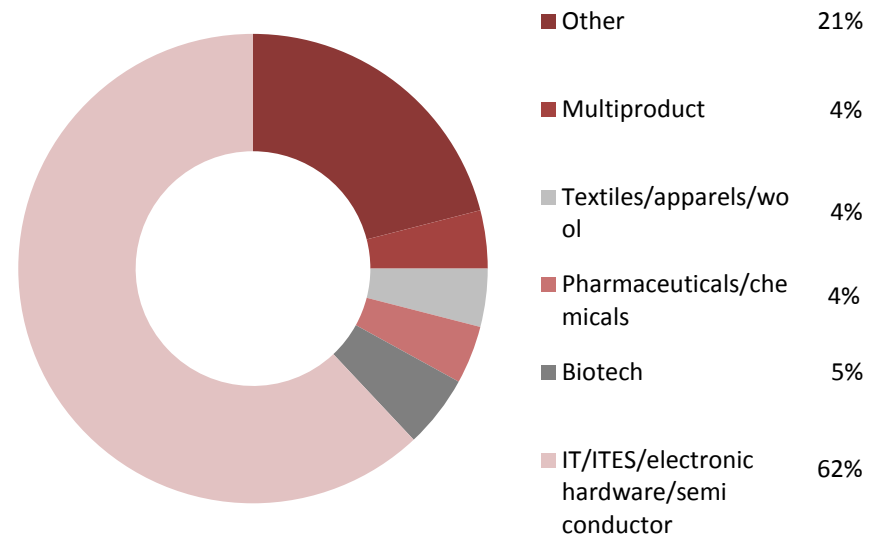
Industry infrastructure — special economic zones(SEZs)

- The maximum number of approved SEZs are in the electronics and information technology services sector (348 of the 568 formally approved SEZs).

The SEZ Act of 2005 was enacted to promote investments and offers the following incentives

- Tax concessions and tax holiday to units
- Exemption from central and state government duties and levies (customs, stamp duty, sales tax, etc.)
- Single window clearance mechanism
- Permit both foreign and domestic investment up to 100 per cent without any regulatory approval

Formally approved SEZs



Source: Electronics and appliances manufacturing - the India opportunity, Ernst & Young, 2009

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Investments ... (1/3)

The high potential of the Indian market has encouraged the durables industry players to expand their presence in several ways

- Expanding production base in India.
- Introducing new products in India from the global product basket.
- Providing support to global projects from India.



- LG Electronics plans to spend US\$ 83.3 million on R&D activities worldwide, which includes developing a design and research facility at its Greater Noida unit in India.

Sources: "LG to double R&D investment to Rs 400 cr," *The Economic Times*, 2 June 2009; "Samsung to focus on R&D," *The Economic Times*, 4 June 2009.

Investments ... (2/3)



- Samsung India is planning to set up a manufacturing facility for home appliances adjacent to its existing facility at Sriperumbudur, with an estimated investment of US\$ 70 million over 2010–11.
- The next phase of investment plan would be to set up a manufacturing facility for home appliances such as refrigerators and air conditioners.



- Godrej is planning to invest US\$ 25 million to set up a television manufacturing facility in Himachal Pradesh by mid-2010 to meet the supply of its recently launched television brand Eon.
- The company also plans to invest US\$ 14.6 million to double the production capacity of air conditioners at its Uttarakhand plant.



- Panasonic is planning to invest US\$ 300 million to set up a greenfield facility for manufacturing appliances including washing machines, refrigerators and air conditioners.

Sources: "Samsung to focus on R&D," *The Economic Times*, 4 June 2009; "Samsung Chennai unit to make home appliances," *The Hindu*, 1 October 2009 "Godrej Appliances plans to invest Rs 120 cr," *The Economic Times*, 2 September 2009; "Panasonic to set up green field facility for appliances," *Business Line*, 25 September 2009.

Investments ... (3/3)



HITACHI
Inspire the Next

- Hitachi has recently commissioned its new air conditioner manufacturing facility in Gujarat.
- This facility, with an investment of US\$ 10.5 million, is the largest AC manufacturing plant in India under a single shed.



DAIKIN

- Daikin Air Conditioning India Pvt Ltd is coming up with an air conditioning equipment manufacturing plant in Rajasthan, with an investment of US\$ 31 million in its first phase.
- The plant will have a production capacity of 20,000 units of variable refrigeration volume (VRV) and 1,800 chillers annually.

Source: "Hitachi inaugurates Rs.50 Crore AC manufacturing facility at Kadi, Gujarat," *Machinist website*, <http://machinist.in>, 29 August 2009 .

EXIM scenario

- India is a net importer of electronics and appliances.
- More than 70 per cent of Indian electronics market depends on import of both finished goods and components.
- India imported worth US\$ 18.5 billion and exported worth US\$ 3.69 billion of electronics goods between April 2008 and February 2009(P)

Electronics goods export/import statistics *						
	2006–07 (US\$ million)	2007–08 (US\$ million)	2007–08 (Apr–Feb) (US\$ million)	2008–09(P) (Apr–Feb) (US\$ million)	2008–09 (P) (Apr–Feb) %Growth	2008–09 (P) (Apr–Feb) % share in total
Exports	2,690.5	2,809.3	2,509.0	3,697.1	47.36	2.55
Imports	15,057.3	17,320.4	15,375.8	18,505.8	20.36	7.41
* excluding computer software in physical form						

Source: Ministry of Commerce and Industry, Government of India, Annual Report 2008–09.
P: Provisional

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Policy and regulatory framework ... (1/2)

The salient features of the existing tariff structure and policy applicable to electronics hardware industry in India include the following

Customs

- The peak rate of basic custom duty is 10 per cent.
- No customs duty on specified capital goods used for manufacturing of electronic goods.
- Basic custom duty on LCD panels for manufacture of LCD TV is 5 per cent.
- Parts, components and accessories of mobile handsets, including cellular phones, are exempted from customs duty.

Central excise

- The mean rate of excise duty (CENVAT) is 10 per cent.
- Microprocessors, hard disc drives, floppy disc drives, CD ROM drives, DVD drives/DVD writers, flash memory sticks and combo-drives are exempted from excise duty.
- Parts, components and accessories of mobile handsets, including cellular phones, are exempted from excise duty.

Source: http://commerce.nic.in/pressrelease/pressrelease_detail.asp?id=2424;

Source: Electronics and appliances manufacturing - the India opportunity, Ernst & Young, 2009

Policy and regulatory framework ... (2/2)

Other policy measures

- Approvals for all FDI up to 100 per cent in the electronics hardware manufacturing sector are under the automatic route.

Cumulative FDI inflows to India between April 2000 and January 2010 (in US\$ million)	
Computer software and hardware	9,630.23
Telecommunications	8,838.07
Electronics	785.75

Export Promotion Capital Goods Scheme (EPCG)

- This scheme allows import of capital goods on payment of 3 per cent customs duty.

The introduction of Goods and Services Tax (GST) in April 2011 by the Government of India is estimated to bring down the indirect tax significantly from current levels of 30 per cent (including cascading). Due to competition, most of these savings are likely to be passed to the end consumer, by retailers, to gain larger market share.

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Opportunities

- The consumer durables market in India is entering a new phase driven by a young population, with access to higher disposable income and easy finance options.
- There is an opportunity for integrated product development in India, as the country is now regarded as a preferred designing base for semiconductor and chip manufacturing companies.
- The growing purchasing power of the rural community has encouraged companies to introduce quality products targeting this low-income consumer segment ('bottom of the pyramid').

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Industry associations ... (1/2)

Consumer Guidance Society of India

Block 'J' Mahapalika Marg, Mumbai-400 001

Tele fax: 91-22 22621612/2265 9715

E-mail: cgsibom@mtnl.net.in

Website: www.cgsiindia.org

Retailers Association of India

111/112, Ascot Centre, Next to Hotel Le Royal Meridien,

Sahar Road, Sahar, Andheri (E), Mumbai-400099.

Tel: 91-22-28269527—28

Fax: 91-22-28269536

Website: www.rai.net.in

Consumers Association of India

3/242, Rajendra Gardens, Vettuvankeni, Chennai,

Tamil Nadu-600 041

Tel: 91-44-2449 4576/4578

Fax: 91-44-2449 4577

E-mail: consumersassnofindia@vsnl.net

Industry associations ... (2/2)

Consumer Electronics and Appliances Manufacturers Association

5th Floor, PHD House

4/2, Siri Institutional Area, August Kranti Marg

New Delhi-10 016

Telefax: 91- 11- 46070335, 46070336

e-mail: ceama@airtelmail.in

Website: www.ceama.in

ELCINA Electronic Industries Association of India (Formerly Electronic Component Industries Association)

ELCINA House, 422 Okhla Industrial Estate, Phase III

New Delhi -110020

Tel: 91- 11- 26924597, 26928053

Fax: 91- 11- 26923440

e-mail: elcina@vsnl.com

Website: www.elcina.com

Note

Wherever applicable, numbers in the report have been rounded off to their nearest whole percentage.

Conversion rate used: US\$ 1 = INR 48

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