

*The purpose of this note is to offer a brief & simplified rationale behind our investments in certain businesses/themes in our Equity portfolios. This is not meant to be an elaborate research report or a recommendation. In this note we explain why we are positive on EMS theme.*

## Electronic Manufacturing Services (EMS)

We see EMS as a structural story offering multiyear (or even multi-decade) growth prospects for Indian businesses. This industry is expected to grow at a CAGR of 35% to reach \$350bn (INR 26tn) by FY25 from \$73bn (INR 5tn) in 2020. EMS cover a wide range of product-markets such as mobile phones, LED products, consumer electronics, industrial electronics, strategic electronics, computer hardware and electronic components.

Our positive view on EMS sector is based on expectations that stars have been favorably aligning to drive robust sustainable long-term growth on the back of:

- \* Rising share of global exports (gaining market share).
- \* Import substitution – make in India initiative
- \* Usage of future innovative products (5G, IOT, Robotics etc.)
- \* Buoyant demand in end products due to rising disposable income

## India's competitive advantages:

Factors that have led to improving competitiveness of domestic players include: rising wages in China, favorable domestic business environment, focus on domestic manufacturing (driven by change in policy) and rising outsourcing trend by brands (to focus on core competencies).

## China +1 Strategy of corporates:

Global shifts in trade policies like the US-China face-off, supply disruptions caused by the pandemic and changing geopolitics have underscored the risk of dependence on one country for sourcing of electronics products and components. This has given Indian businesses a chance to step in. It is a once in a lifetime opportunity for the Indian EMS players to make use of benign environment and grab global market share.

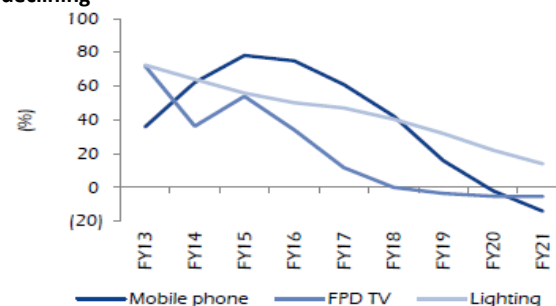
## Trade balance- big scope for improvement:

Of the total electronics demand in India, around 50% is currently fulfilled by imports with China being the biggest supplier (~40%). Of the total local electronics production only 16% is exported. India's market share of the global electronics market is only 3.3%, despite

accelerated growth in recent years. There is enormous scope for Indian businesses to scale up.

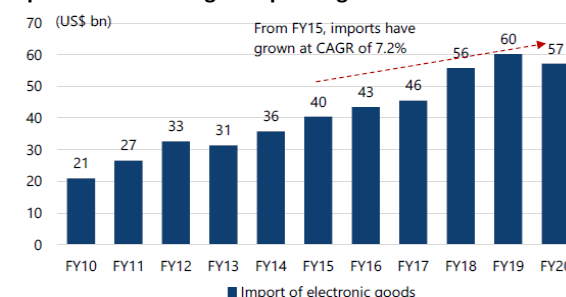
Gradually, the growth rate in domestic production is outpacing growth in imports. This underscores government's focus on endorsing new initiatives for the Indian EMS industry. Currently, LED products and consumer electronics are the major products being exported whereas semiconductors and integrated circuits (ICs) are the major products being imported.

## Share of net imports as a % of total domestic demand declining



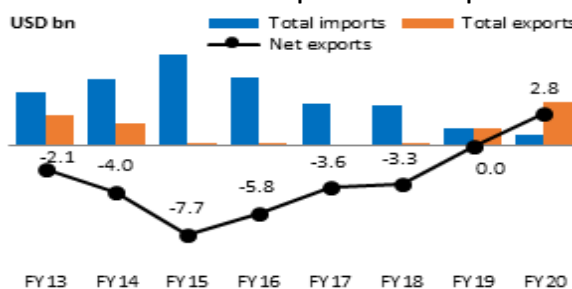
Source: Dixon Technologies and Elara Securities Research

## Import of electronic goods peaking



Source: Ministry of Commerce and Industry

## India has now turned a net exporter of mobile phones



Source: Ministry of Commerce, MOSL.

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**

## Supportive government policies

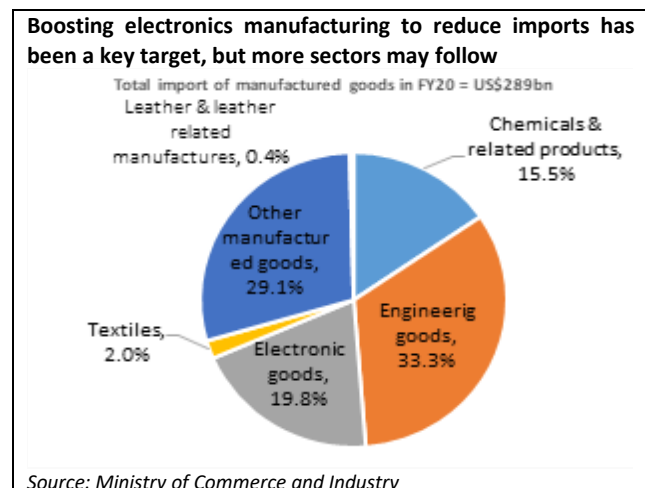
The GST, Make in India, and other policies such as Preferential Market Access, have made the business environment far more conducive for local manufacturing. Government's flagship programs, such as Smart Cities and Digital India, are also boosting demand for electronic products. In April 2020, the government announced three additional schemes which were notified by the Ministry of Electronics and IT (MeitY), allocating a sum of INR 500bn (~ US\$ 7bn) in total, for incentives under the schemes. These incentives are expected to bolster the local production of electronics and promote anchor companies in the major electronics clusters in India. The three schemes are Production Linked Incentives (PLI), Scheme for the Promotion of Manufacturing of Components and Semiconductors (SPECs) and Modified Electronics Manufacturing Clusters (EMC 2.0). The mobile PLI scheme has received encouraging response from the

industry, including global and domestic players. Recently, certain state governments have made significant labor reforms, brought in easier approval regimes for businesses, and provided ready land for investors.

The domestic EMS industry is at a nascent stage but in a sweet spot. We like businesses in EMS space that have continued focus on cost competitiveness, increase in backward integration, expansion of product range, strong product design capabilities and higher value offering. At present, we own Dixon Technologies and Amber Enterprises across our portfolios. We believe both these businesses are well positioned to gain from favorable industry changes to scale up meaningfully.

## Key Risks:

- Slowdown in end-user industries
- Adverse changes in government policies



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