

Electronics, auto companies may reduce output from April

Synopsis

Consumer electronic companies will be forced to cut production from next month while companies importing finished goods from China may face inventory shortages too.



Consumer [electronics](#) and automobile manufacturers in India are considering slashing production from April as supplies of components from [China](#) and Hong Kong have dried up in the past week or so, owing to the imposition of lockdown in parts of China after a surge in Covid-19 cases, said industry executives.

Consumer electronic companies will be forced to cut production from next month while companies importing finished goods from China may face inventory shortages too, said the executives.

Automakers, too, are weighing the situation, considering China is one of the largest component sourcing markets, they said.

"Shipments are already delayed by 10-15 days, which will impact production next month," said Pradeep Jain, managing director of [Jaina Group](#), which retails [Karbonn](#) and Sansui brands.

Homegrown mobile phone and computer maker Lava International's chairman, Hari Om Rai, said prices can go up, apart from a further delay in availability of components.

Key Sourcing Base

Vinnie Mehta, director general, Automotive Component Manufacturers Association, said China is a key sourcing base for many commodities and components for the Indian automotive industry and the lockdown there may add to the supply chain woes the Indian industry is facing. The issue was also discussed at a recent executive committee meeting of the association, he said.

"The auto sector is already facing a lot of headwinds - from the spike in commodity prices to supply chain disruption because of the geopolitical crisis to the semiconductor shortage. This will add another element of uncertainty and cost," said Mehta.

Several Chinese cities are in lockdown due to a record number of Covid-19 cases - including in technology capital Shenzhen - due to China's zero-Covid policy. This has increased the congestion at several Chinese ports, while border movement to Hong Kong, which is another important transit point of Chinese cargo to India, has also been restricted, said the executives.

Delayed Impact

Firms such as Apple's iPhone manufacturer Foxconn and automakers Toyota and Volkswagen have been forced to suspend some operations in China, according to media reports.

"Since the industry has increased the raw material holding period to 30-45 days, the impact on production will be felt in April," said Kamal Nandi, business head at Godrej Appliances.

The disruption comes at a time when both automakers and electronic companies were looking to scale up production, given the improvement in semiconductor supplies as well as domestic demand, with the waning of the pandemic.

"Component supplies will be delayed by three to four weeks as of now but can get worse if the situation in China continues to be grim," said Avneet Singh Marwah, chief executive of SPPL, which manufactures Kodak, Thomson and Blaupunkt brands.

Gizmore chief executive Sanjay Kalirona said the accessories and audio company's shipment due on March 2 arrived in India on March 18. He said while Shenzhen lockdown is partially relaxed, movement of goods through roads to Hong Kong is still restricted.

Brakes On

Gaurav Vangaal, associate director, S&P Global Mobility, said the industry has been under an unprecedented prolonged supply crunch scenario. This hit India's light vehicles - passenger vehicles plus small commercial vehicles -- output to the tune of 500,000 units in 2021, he said, and while it was expected that things might improve from 2022 onwards, geopolitical tensions and resurgence of Covid-19 in China have come as dampeners.

"The top two global vehicle majors, Toyota and Volkswagen, have already announced production impact in April-June. The automotive market is continuously witnessing disruptions. Hence, the ecosystem has been compelled to stock up more to avoid any stoppages of production lines," said Vangaal. "Things have remained insulated so far, but India is intrinsically linked to the chain and the impact will be there. How much it is, is what one will know in a few weeks because of the long lead time."

The passenger vehicle market suffered a hit of half a million units — or 10-15% of total production — in 2021-22 owing to the shortage of chips, leading to a revenue loss of almost Rs 40,000 crore. As a result, the industry is sitting on a vehicle order book of more than 500,000 units for nearly six months.

Imports of auto components surged more than 70% year-on-year in the first half of 2021-22 to Rs 64,310 crore. However, exports also grew as the global supply chain started accelerating on the China-plus strategy, leading to a trade surplus for the domestic industry.