Electronics sector battles supply and price issues as production halts in China


By Pranit Sarda, Naini Thaker | Mar 6, 2020

The Indian market is dominated by Chinese smartphones such as Xiaomi, Vivo and Oppo, and coronavirus concerns have led to a lockdown in exports, affecting business adversely
The electronics industry is adopting a wait-and-watch approach as the coronavirus scare continues. As of March 6, at least 97,694 people were infected across 90 countries while 3,382 have died because of the virus. The toll from the outbreak in China—the epicentre of the disease—has crossed 3,000. India imported $23.2 billion worth of electrical and electronic items from China in 2018, according to United Nations Comtrade data. As a leading manufacturer of smartphones and other electronic goods, production and supply have taken a hit because of the virus. The ‘Assessing the impact of the Covid-19’ report by HDFC Bank from February 2020 says 48 percent of India's total manufacturing inputs for electronics comes from China. Besides, the Indian market is dominated by Chinese smartphones such as Xiaomi, Vivo and Oppo. The export lockdown is therefore having an adverse effect on business. Authorities claim that the spread of the virus has declined in China and manufacturing is likely to start in the country in April. Once it resumes, production is likely to be doubled for electronics to make up for the lost time and orders. Transport and logistics, however, will improve only after June. Consequently, prices are likely to shoot up.

“The extended shutdown in China is likely to have an impact on our supply chain and quantum of component supplies. We are exploring alternative supply channels for components and raw materials, but the immediate impact is that the short supply might cause some negative pressure on prices of these components. This has led to an increase in the price of the product temporarily,” says a Xiaomi spokesperson. The prices of Redmi Note 8 (4 GB RAM and 64 GB), for instance, have increased, as Xiaomi is unable to meet the current demand.

“With fear mongering, and suppliers' pressure on retailers and consumers to buy, we will see demand and sales go up in March and reduce in subsequent months,” says Navkendar Singh, research director of IDC India, a market research firm. He adds that IDC had three extreme views of the epidemic when details of its outbreak started pouring in. “The pessimistic one was that the virus continues for 2020, optimistic said it will get contained in the first quarter of 2020 while the probabilistic—also the most realistic—was that it will continue till the second quarter of 2020 after which things will start improving.”
In a statement on February 17, Apple spoke about not meeting its revenue projections due to a decrease in demand and supply. Its stores have resumed operations in China, but they are operating at reduced hours and with low customer traffic. Outside China, however, Apple claims to have strong demand for its products.

Counterpoint Research says 12 percent of handset components are sourced locally in India while 88 percent are dependent on overseas countries, with China being a key exporter. “To tackle the situation, some companies can look for sourcing outside China, a factor which companies in China were considering even during the China-US trade war,” says Anshika Jain, research analyst at Counterpoint Research.

Apart from China, coronavirus is also having an adverse impact in countries like South Korea, home to Samsung Electronics and LG Group. South Korea is a base for imported products sold in India and high-end components.

The laptop industry in India will be most hit as most of its production is in China. The TV business, too, is likely to suffer.