

CONSUMER DURABLES

26 September 2022

Vedanta-Foxconn JV to help localization of appliances

- Vedanta-Foxconn semiconductor JV a key long-term positive for consumer durables sector as it marks the onset of local semiconductor supply
- JV targets production of 28nm chips used in TVs, ACs, trains, robots and drones – the very areas India aims to indigenise
- Proposed 80% output reservation for domestic market could catalyse local manufacturing of various consumer durable appliances

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Vedanta-Foxconn JV a good start: Vedanta has signed an in-principle agreement with the Gujarat government to set up a semiconductor and display manufacturing facility at an investment of Rs 1.54tn, through a 60:40 joint venture with Taiwanese company Foxconn. This facility will make 28nm (nanometre) chips, with 80% of production proposed to be reserved for the domestic market.

India offering US\$ 10bn in incentives for chip plants: India has a US\$ 10bn incentive outlay for companies wishing to set up semiconductor plants in the country. This covers fabrication units, compound semiconductor plants, chipsets, outsourced manufacturing and testing needs. The policy offers a 50% incentive on the project cost for Indian businesses to set up semiconductor fab and display fab plants – at least two each. Further subsidies of up to 30% of the project cost aim to support 15 OSAT (outsourced chip assembly and test) and compound semiconductor plants.

28nm technology is a critical point: Vedanta is targeting 28nm chips, typically used in TVs, ACs, trains, robots and drones, among others – the very areas that India wants to localise. In technology parlance, 28nm is the point between low-to-medium and high-end chips. The Indian government had initially offered a graded incentive scheme, but recently modified this to provided 50% fiscal support for all chip types. Singapore-based IGSS is targeting a range of 28-55nm for its upcoming Tamil Nadu plant.

Exports could be a different ball game: Other countries are also looking to diversify semiconductor supply chains. The US has allocated US\$ 52bn for the industry as part of the CHIPS for America Act, and the EU aims to double its share of global chipmaking to 20% by 2030. China has created a US\$ 50bn fund for domestic semiconductor companies. Rollout of 5G/6G technology should see a demand shift to high-end chips. This can be a twin challenge for India in terms of higher capex and technology transfer.

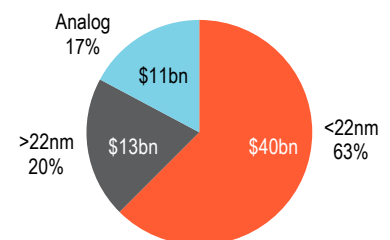
Top picks: We expect local chip supply will help localise appliances manufacture in India in the long term. We continue to prefer HAVL (TP: Rs 1,500, BUY), CROMPTON (TP: Rs 500, BUY) and POLYCAB (TP: Rs 3,000, BUY).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,246	2,300	HOLD
BLSTR IN	1,092	1,100	HOLD
CROMPTON IN	402	500	BUY
DIXON IN	4,314	4,500	BUY
HAVL IN	1,306	1,500	BUY
ORIENTEL IN	272	310	HOLD
POLYCAB IN	2,581	3,000	BUY
VGRD IN	248	250	HOLD
VOLT IN	901	1,100	HOLD

Price & Target in Rupees | Price as of 23 Sep 2022

India chip demand expected to rise to US\$ 64bn in CY26



Source: IESA, ISMC, BOBCAPS Research



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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