

CONSUMER DURABLES

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Gujarat electronics policy to boost localisation of appliances

- New Gujarat electronics policy aims to build an ecosystem for electronics manufacturing in India and enable import substitution
- Ceiling for capital support extended to Rs 2bn for investments below Rs 10bn; logistics incentives added with one-time relocation cost
- Policy will support local ESDM players and aid domestic manufacturing of various consumer appliances; prefer DIXON (TP Rs 5,200)

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Gujarat Electronics Policy 2022: The Gujarat government has unveiled a new electronics policy that aims to promote the state as a national hub for electronics system design and manufacturing (ESDM). The host of subsidies and incentives on offer to investors under the policy is expected to attract a slew of additional investments by ESDM companies, boosting growth in the industry and reducing India's dependency on electronic imports.

Thrust on import substitution and export promotion: Domestic production of electronic goods has increased substantially from US\$ 37bn in FY16 to US\$ 74.7bn in FY21, a CAGR of 17.9%. The objective of the current policy is to bolster local electronics manufacturing and drive annual exports worth US\$ 30bn, thereby generating employment opportunities (target of 1mn jobs by 2028)

Major sops on offer: Entities investing <Rs 10bn in ESDM will be eligible for 20% capex assistance up to Rs 2bn. For higher capex, entities will receive added 15% support on investments over Rs 10bn. The capital support will be allocated annually for five years after production begins. In the earlier 2016 policy, incentives to build greenfield capacity were limited to Rs 250mn and a stamp duty waiver. In line with the prior policy, the government will forego 100% stamp duty and registration fee on related land deals. Interest assistance on term loans, electricity subsidy of Re 1/unit, 100% electricity duty reimbursement, and employee provident fund reimbursements will continue.

Logistics support added: Eligible units will receive logistics aid to reduce their operational costs via payment of 25% of total freight charges incurred, with a cap of Rs 500mn p.a. for five years. Also, in case of relocation of plants from other states, one-time support of 50% of the total cost incurred (up to Rs 500mn) will be provided.

Key picks: Supportive government policies should help localise the manufacturing of durables in India in the long term. We continue to prefer **DIXON** (BUY, TP Rs 5,200) in the electronic manufacturing services (EMS) segment.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,065	2,100	HOLD
BLSTR IN	1,236	1,100	HOLD
CROMPTON IN	362	500	BUY
DIXON IN	4,517	5,200	BUY
HAVL IN	1,216	1,500	BUY
ORIENTEL IN	269	310	HOLD
POLYCAB IN	2,777	3,300	BUY
VGRD IN	256	250	HOLD
VOLT IN	876	1,100	HOLD

Price & Target in Rupees | Price as of 31 Oct 2022



Fig 1 – Capital support (to be disbursed yearly for 5Y from date of commercial production)

SN	Investment size	Incentive offered
1	Eligible capex <=Rs 10bn	<ul style="list-style-type: none"> Capital assistance of up to 20% of eligible capex; upper limit of Rs 2bn
2	Eligible capex >Rs 10bn	<ul style="list-style-type: none"> Capital assistance of up to 20% of eligible capex up to Rs 2bn for capex up to Rs 10bn 15% incremental support for capex over Rs 10bn

Source: Gujarat Electronics Policy 2022, BOBCAPS Research

Fig 2 – Stamp duty and registration fees

SN	Beneficiaries	Incentive/subsidy offered
1	Eligible units	<ul style="list-style-type: none"> One-time reimbursement of 100% of stamp duty and registration fee paid to the government for lease/sale/transfer of land

Source: Gujarat Electronics Policy 2022, BOBCAPS Research

Fig 3 – Interest assistance

SN	Beneficiaries	Incentive/subsidy offered
1	Eligible units	<ul style="list-style-type: none"> Interest assistance on term loan at 7% or actual interest paid, whichever is lower, with a maximum limit of Rs 100mn/year Incentive on an annual basis for a maximum period of five years from the start of actual interest repayment

Source: Gujarat Electronics Policy 2022, BOBCAPS Research

Fig 4 – Logistics support

SN	Beneficiaries	Incentive/subsidy offered
1	Logistics incentives (imports)	<ul style="list-style-type: none"> Support up to 25% of freight charges up to a maximum of Rs 500mn/year for five years
2	One-time aid for relocation	<ul style="list-style-type: none"> Reimbursement of 50% of the cost incurred on import of manufacturing equipment up to a maximum ceiling of Rs 500mn

Source: Gujarat Electronics Policy 2022, BOBCAPS Research

Fig 5 – Incentive on power tariff and electricity duty (to be disbursed annually)

SN	Beneficiaries	Subsidy/incentive offered*
1	Eligible units	<ul style="list-style-type: none"> Power tariff subsidy of Re 1/unit for a period of five years
2	Eligible units	<ul style="list-style-type: none"> Exemption from paying electricity duty as per the provisions laid down under Gujarat Electricity Duty Act
3	Existing units	<ul style="list-style-type: none"> Power tariff subsidy and electricity duty reimbursement only for additional power consumed, attributable to expansion / diversification

Source: Gujarat Electronics Policy 2022, BOBCAPS Research | * disbursement of power tariffs subsidy and electricity duty incentives will be allocated on annual instalments

Fig 6 – Support under EPF norms

SN	Beneficiaries	Subsidy/incentive offered*
1	Eligible units	<ul style="list-style-type: none"> Claim reimbursement on the employer's statutory contribution under Employees' Provident Fund (EPF) for a five-year period <ul style="list-style-type: none"> 100% of employer's statutory contribution under EPF paid in case of female employees working locally in Gujarat 75% of the employer's statutory contribution under EPF paid in case of male employees working locally in Gujarat Ceiling of incentive amount per employee will be 12% of the employee's basic salary plus applicable dearness allowance (DA) and retaining allowance

Source: Gujarat Electronics Policy 2022, 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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