

RESEARCH
BOB Economics Research | Consumption Trends

A silver lining or a dark cloud

Consumer Durables

Vedanta-Foxconn JV to help localization of appliances

SUMMARY
India Economics: Consumption Trends

Consumption, with a major share in GDP is an important indicator when talking about how growth has fared. But we do not have much high frequency data to track it on a monthly basis, as retail sales data are not available. True automobile sales gives us a signal whether people are spending or not. Company financials of FMCG and non FMCG segment also gives an idea but it comes on a quarterly/annual basis. GST collection data is also an indicator of how spending has been on goods and services. But it is in nominal terms and can be influenced by inflation. A way out is to look at the domestic production to get an idea about demand, assuming stocks don't build up.

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Consumer Durables

- 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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Daily macro indicators

Indicator	22-Sep	23-Sep	Chg (%)
US 10Y yield (%)	3.71	3.68	(3bps)
India 10Y yield (%)	7.31	7.39	8bps
USD/INR	80.87	80.99	(0.2)
Brent Crude (US\$/bbl)	90.5	86.2	(4.8)
Dow	30,077	29,590	(1.6)
Hang Seng	18,148	17,933	(1.2)
Sensex	59,120	58,099	(1.7)
India FII (US\$ mn)	21-Sep	22-Sep	Chg (\$ mn)
FII-D	(132.4)	(57.2)	75.2
FII-E	(34.9)	(275.9)	(241.1)

Source: Bank of Baroda Economics Research

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CONSUMPTION TRENDS

26 September 2022

A silver lining or a dark cloud

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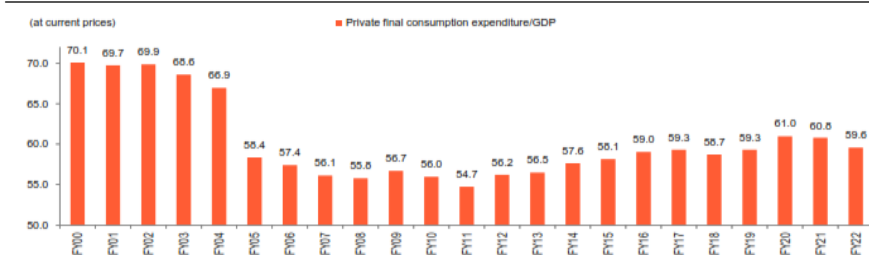
In this exercise, we have looked at production data on production for various consumer products in the Apr-Jul'23 period and compared it to the pre pandemic level. This we believe is a better way of looking at data as there were sharp movements in 2020 and 2021 in both the directions which tend to inflate growth numbers both ways. Interestingly, the economy looks as if it is 'moving' as reflected in the increased production of bottled water, creams and lotions, liquor, travel goods, aerated drinks etc. Even the PV sales data especially the high end segment reflect the same.

Digital inclination persist as production of computers, laptops and mobile devices are increasing at a faster pace. This is notwithstanding an increase in prices. What has been a concern is that major daily items of consumption ranging from biscuits, tea, cakes, pastries & muffins, toilet soap, toothbrush, readymade garments and footwear registered considerable drop in production which is below the pre pandemic period. Prices are also considerably elevated for these products and in double digits if we consider the build-up in inflation since Feb'20. So we expect 'pocket pinch' to hurt the hardest especially for middle class consumers.

How the consumption picture panned out?

Consumption showing mixed picture: Consumption demand comprises a major share in overall GDP. Post Covid, this sector has been badly hit whether it may be the inflationary impact or reduction in purchasing power on account of slowdown in overall economic activity/employment. From around 70% as a share of GDP in FY04, the share of private final consumption expenditure (PFCE) went down to 59.6% in FY22.

Fig 1 – FY22 noticed a slowdown in consumption demand due to Covid-19 pandemic



Source: CEIC, Bank of Baroda Research



CONSUMER DURABLES

26 September 2022

Vedanta-Foxconn JV to help localization of 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.

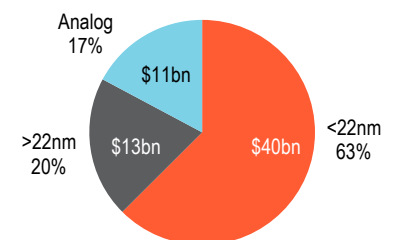
Top picks: We expect local chip supply will help localise appliances manufacture in India in the long term. We continue to prefer HAVL (TP: Rs 1,500, BUY), CROMPTON (TP: Rs 500, BUY) and POLYCAB (TP: Rs 3,000, BUY).

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



Disclaimer

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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