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May 31, 2022

Shri Shailesh Kumar Singh, IAS
Addl. Secretary & Development Commissioner
Ministry of Micro, Small & Medium Enterprises

Subject: Specific provision for Electronic Manufacturing in National Policy for MSME

Respected Sir,

Greetings from MAIT!

I am writing to you on behalf of **MAIT**, India's apex Industry body empowering IT, Telecom & Electronics Hardware sector.

We thank you for the courtesy extended to the undersigned on his visit to your office at Nirman Bhawan on 13th May 2022.

The MSME Ministry has released a well-crafted **Draft National Policy for MSMEs** and have proposed multiple measures to promote competitiveness, technology upgradation, cluster and infrastructure development, procurement of MSME products and dedicated credit support.

This letter is to request you to "Call Out" the Electronic hardware manufacturing sector requiring special provisions in the upcoming National Policy on MSME. MAIT draws your kind attention for a comprehensive policy and the rationale in the attached note.

Under the Hon'ble Prime Minister's Atmanirbhar programme, our country has taken a goal to make **2030 the decade for Electronic H/w Manufacturing for India**.

The country has set a target of **\$350 billion in electronics manufacturing by 2025**. As per MAIT estimates, this offers Indian MSME industry a **\$70 billion of new manufacturing opportunity**.

To realise this promise there is a need to "Call Out" for special provisions to promote the electronic manufacturing MSME sector.

A note detailing w.r.t. the particular provisions is attached for your consideration. We look forward to a deep engagement for developing these into a policy framework.

We would also request you for **an appointment on a day & time convenient to you** to personally apprise you of the matter.

With regards,


George Paul
CEO

CC: Shri A K Tamaria, Dy. Director, Ministry of Micro, Small & Medium Enterprises

Need for calling out the “Electronic H/w manufacturing” in the National Policy for MSME & special provisions for the same

Opportunity:

Electronics industry is the world’s largest and fastest growing industry and is increasingly finding applications in all sectors of the economy. The Government attaches high priority to electronics hardware manufacturing and it is one of the important pillars of both “Make in India” and “Digital India” programmes of Government of India.

The global electronics production is estimated to be USD 2 trillion (approximately INR 1,30,00,000 crore) in 2017. **Indian electronics hardware production** has increased from INR 1,90,366 crore in 2014-15 to INR 3,87,525 crore (approximately USD 59 billion) in 2017-18, registering a Compound Annual Growth Rate (CAGR) of 26.7%. The GoI has set a target of **\$350 billion in electronics manufacturing by 2025**.

With global companies bringing product assembly manufacturing into the country, it opens the door for MSME ancillary units who can account for 20% or more of the manufacturing. This represents a **\$70 billion or more opportunity in electronics manufacturing** as per MAIT’s estimate. This is both an opportunity and a challenge for the SME electronics manufacturing sector as briefly elaborated below.

Nuances of Electronics as an industry:

We all enjoy using electronic products with ever evolving new features. There is a price we pay as a society. Electronics has the fastest rate of new technology adoption, building of new skills and investment in R&D and enhance manufacturing capability among the various industry sub-sectors.

The life duration of a product models is getting shorter and products with new features invariably at the same or marginally higher price point are released into the market.

In Electronics profitability comes from the ability to specialise in a company’s core strength area be it technical, techno-commercial or commercial. As no one company can specialise in all the technology building blocks that go into designing and manufacturing a product it requires to work with other specialised company to keep ahead of competition.

We highlight these nuances to set the context of the unique environment of electronics H/W as an industry.

Challenges:

Electronics hardware design & manufacturing sector faces lack of level playing field vis-à-vis competing nations on account of several disabilities which render domestic electronics hardware manufacturing uncompetitive. When we set out to define identify the challenges that the SME electronics sub-sector faces, we need to

categorise them into four broad sub-sectors within electronics. Each of them is equally critical as the others depend on them. These sectors are

- a) MSME- Brand manufacturers
- b) MSME- EMS
- c) MSME- Original Design Manufacturers (ODMs)
- d) MSME- Independent ESDM Design Houses

The Indian Electronics industry faces a number of disabilities vis-à-vis competing economies which has been recognised by the GoI and in response the Govt has come out with a series of schemes to support local design and manufacturing including the PLI. The very same disabilities exist for the MSMEs of India but at a larger scale because of their smaller size.

World over countries have special programs by the public sector to enable MSMEs to contribute into countries economic development. SMEs in high income countries have received an increasing share of policy attention as SMEs are a potential engine of growth and development & employment of the nation. The similar engagement in our country is required for the development of the electronic MSME H/W sector.

Industry's key asks on special provisions for the electronic hardware manufacturing SMEs in the MSME policy:

1. **Provisions for special support for R&D in Electronics manufacturing sector:** The electronics industry is unlike any other, with technology and products changing every 12 months. If a company is to survive, it must continuously invest in R&D. No other industry has the need to invest as much in R&D as electronics does. The investment in R&D by industry in this sector is as high as 20-25% of the company's revenue.

There is no scheme where MSMEs get funding for R&D in electronics, a provision is required for the same in the upcoming policy. MSME Ministry should also consider providing shared facilities for electronic MSMEs, where R&D can be done by them.

2. **Provision for providing assistance to attract high calibre manpower to Electronic MSMEs:** Special programs to be run for skill enhancements in Institutes of National Importance as a driver for the employees of such SMEs. The programme to be entirely supported by the Industry/ GoI in order to attract high calibre manpower.
3. **Provision for continuous technical skill development & upgradation:** Electronic industry is continuously upgrading the technology and to bridge the increasing gap, skill enhancement and upgradation of the manpower needs to be prioritised in order to cater to the industries need.

4. **Provision for Scale up program to support “The Jewels of India” to grow 300% in next 5 years:** India has many successful electronic H/W manufacturing SMEs. These SMEs have crossed critical hurdles of R&D, manufacturing, brand, customer, gross profit and establishing themselves in domestic and export markets. These companies we call as the electronic “Jewels of India”. Due to lack of focus on electronic manufacturing, these SMEs are not able to expand/grow. A provision to be made in the policy where a bottom-up approach to enable these companies to scale at least 300%.
5. **Provision for setting up risk coverage support:** Working capital & project capital is the biggest issue in the electronics sector SMEs. Existing schemes do not meet the need of the rapidly growing electronic MSME sector.
6. **Insurance coverage:** Traditionally, MSME owners do not have sufficient awareness of business risk management. It makes them vulnerable to several factors such as theft or acts of God, bad health, loss of income due to reasons beyond their control etc. As of now, only 5% of MSMEs are covered by insurance and India has 6.33 crore MSMEs (IRDAI), majority of which are micro-enterprises. A non-burdensome compulsory provision needs to be made for Insuring the SMEs for survival.
7. **Provision for faster Customs clearance for MSMEs:** Majority of imports are pre-paid and the consignment size is small. Delays in custom clearance and the need to hire custom clearance services adds to the cost disadvantage of MSMEs. This is a double whammy. A provision for green channels is needed for faster customs clearance for electronic manufacturing SMEs. The same would go a long way in ensuring their competitiveness.
8. **Provision for mandating SLA based resolution of bills receivables grievance redressal:** Many times, return queries are raised resulting in delaying the redressal process. There is need for transparent SLA based redressal process to avoid the delay.
9. **Specific grievance redressal window:** SMEs in the electronics sector cannot afford costly lawyers and agents. A provision for specific window to be created on Income Tax, GST and Customs portals for faster resolution of grievances of electronics manufacturing SMEs. One step towards this is to define SLAs in which an SME issue should be responded/closed, if not closed the specific inputs required to close the same.
10. **Provision for financial support for carrying out tests (in labs) and certifications as per regulation:** As the volume of sales of products by an electronic manufacturing SME is much lower, compared to a large industry the regulatory fee overhead per product is very high.

The technical standards required for product design and development are very expensive and a burden on the MSMEs. The above is compounded by the fact that in the domain of electronics new technology and new products features are continuously coming out globally and the MSMEs have to be kept abreast of the same.

11. **Provision for upfront payment for public procurement:** The Govt. is a major buyer for SME products. It is therefore recommended that there should be a special provision to be made under public procurement wherein 80% advance is made while placing the order based on credit rating (ZED rating).
12. **Creation of a public database of various MSMEs and their specialisations:** The agility is the competitive advantage of SMEs particularly in Electronics where continuously product development is happening. When we talk of electronic manufacturing ecosystem, one of the strengths of that a country can build is a well networked MSME database. This today is lacking in India. MAIT would like to take a project with the MSME Ministry to identify these SMEs and create a strong database.
13. **Provision for access to technology:** electronic ESDM requires access to pivotal core technology, which is one of the major challenges faced by electronic MSMEs. Access refers to
 - a. Access to technology tie-up and support
 - b. Access to tools required to design and manufacture products using these technologies
 - c. Procurement at competitive rates and timelines
 - d. Procurement at MOQs required by MSMEs

This definitely draws the need for calling out the “Electronic H/w manufacturing” in the National Policy for MSME & special provisions for the same.