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MANUFACTURING

Can India beat China in iPhone manufacturing? It first needs to create stickiness Apple can't ignore.



Getty Images

Apple CEO Tim Cook looks on during an Apple special event on September 07, 2022 in Cupertino, California.

Synopsis

Apple is selling more phones in India than before. The country is also key to Apple's China+1 sourcing strategy. But China has deep manufacturing roots. For

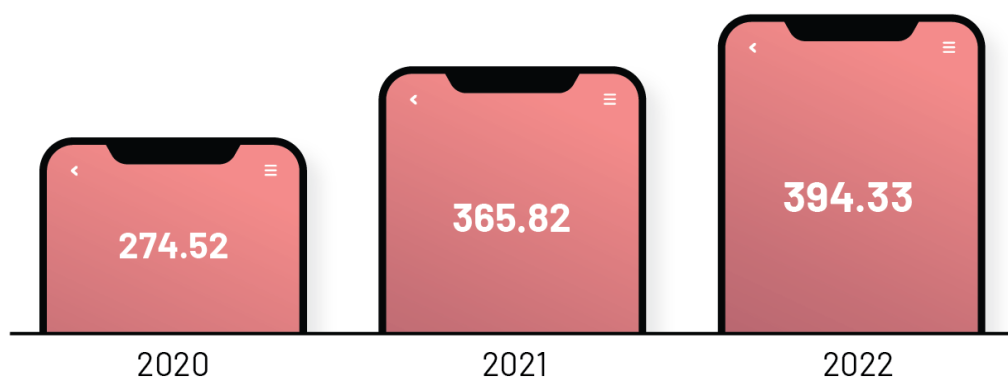
India to become a true alternative, it must create a sub-assembly value chain rather than doing just contract manufacturing.

Tim Cook has India on his mind.

The other day, the **Apple** CEO lauded filmmaker Vishal Bhardwaj's 30-minute film *Fursat*, shot entirely on iPhone 14 Pro and released on YouTube, for its cinematography and choreography. "It explores what might happen if you could see into the future," Cook tweeted on February 5.

Just a few days earlier at the December quarter results meeting with analysts, Cook shared that the iPhone maker had achieved an all-time high revenue from India. Cook said in the post-earnings call that Apple "grew very strong double digits in India, Y-o-Y in the last quarter. We feel very good about how we performed. I'm very bullish on India."

Apple revenue: steady growth



Figures in USD billion
Source: Company

ETPrime

Apple is selling more phones in India now than ever before. While making in India was initially part of Apple's China (where more than 90% of the iPhones are made) de-risking

strategy amid a strained Sino-US relations, the growing Indian market for iPhones comes as the icing on the cake. Also, in 2022, shipments of Apple's latest device, iPhone 14, were delayed from China factories due to Covid-19 curbs.

Through its three Taiwanese contract manufacturers — Foxconn, Wistron, and Pegatron — Apple is ramping up production in India. Investment bank JP Morgan sees Apple sourcing one in four phones, or 25% of its global production, from India by 2025.

Is India ready?

The increasing local consumption of iPhones makes India an attractive place for the USD394 billion Cupertino giant to manufacture devices locally. Bindiya Vakil, CEO, Resilinc, a California-based global supply-chain mapping and monitoring group, believes, "Growth markets of the future are India and Africa."

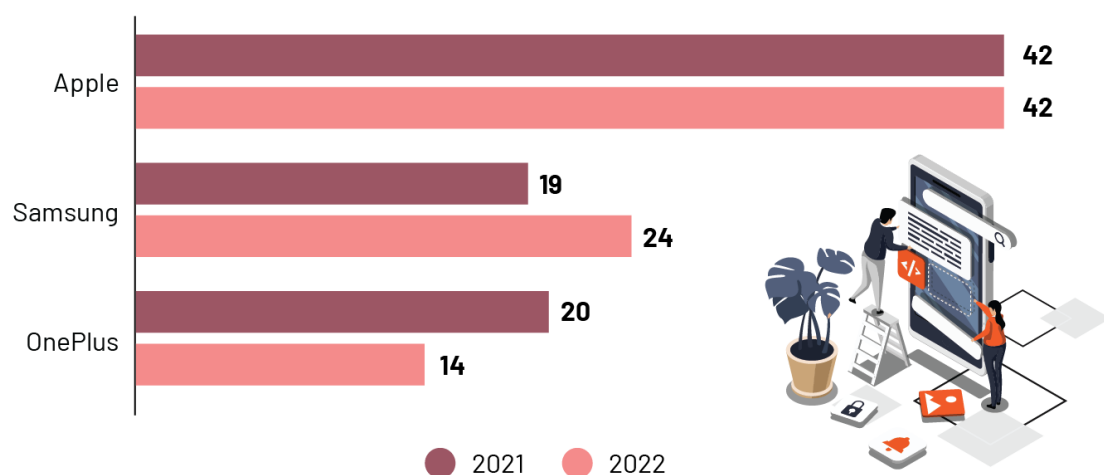
But at present, most of the iPhone making in India is assembly of devices, or what is known as FATP (Final Assembly, Test and Pack), rather than ground-up manufacturing.

While the component ecosystem for Apple products will take time to develop, the country lacks stickiness without that. We will tell you more about this in a bit.

Experts, however, acknowledge that even getting this far — from making earlier-gen devices to the latest iPhones — is a giant leap by Apple in India.

According to a *Bloomberg* report, Apple exported more than USD2.5 billion worth of iPhones from India during April-December 2022, nearly double than what was exported in the entire FY22, highlighting the rapid shift in iPhone production outside China. December alone saw exports worth USD1 billion from India. “This gives more breadth to India manufacturing,” says Satya Gupta, CEO, EPIC Foundation, a non-profit with a focus on scaling up India’s electronics industry and creating Indian brands and products.

Market share of premium smartphones in India



Figures in percent

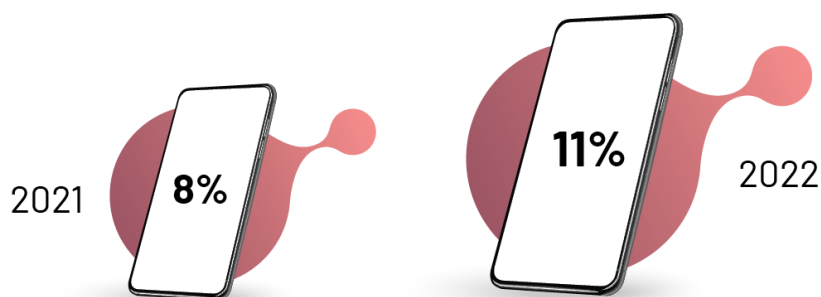
Note: Smartphones priced above INR30,000 fall in the premium category

Source: Counterpoint

 ETPrime

According to market-tracker agency Counterpoint, Apple leads the premium smartphone segment (devices priced over INR30,000) with around 42% market share. The premium segment contributed 11% to India’s smartphone shipments and 35% to revenue in 2022.

Smartphones: premium market share grows in India



Source: Counterpoint

 ETPrime

Apple India did not respond to queries sent by ET Prime.

China's loss is India's gain

India is steadily going up the iPhone manufacturing value chain. Before the pandemic, this was not quite the case. In fact, Apple was disappointed by sluggish sales in the Indian market and replaced its entire team in the country with an expat.

In January 2019, Apple hired Ashish Chowdhary to run its India operations. He came from Nokia, where he led customer operations for Asia and the Middle East regions. Few months after he joined, Apple ramped up manufacturing iPhones in India. Apple has been making the iPhone SE at Foxconn's Chennai factory since 2018.

iPhone 6, which was launched in 2014, was locally made in 2018 and iPhone 7 in 2019. But India always lagged production in China till iPhone 14 and 14 Pro devices when

the gap between manufacturing in India and China blurred.

Despite the steady scale, India still doesn't have the muscle similar to, say, the Zhengzhou mega-factory, also known as iPhone City, run by Foxconn, Apple's manufacturing partner for over 20 years. Foxconn has 29 factories in China, up from 19 in 2015. With Pegatron and Wistron, the number of Apple factories in China is over 50, compared with just a handful in India.

But Covid lockdowns in late 2022 saw China factories shipping 6 million fewer iPhones than targeted, impacting the holiday season demand. This, and the strains in US-China relations, makes India one of the best bets for Apple around the world to manufacture at scale and quality. India already makes 16% of the global smartphones, mostly Chinese brands — Xiaomi, Oppo, Vivo and the South Korean Samsung.

“Many companies are looking at India as a new hub for high-tech manufacturing,” says Vakil of Resilinc. She cites multiple reasons.

“First, India is core to the ally-shoring strategy of buying from countries who are aligned with the US, the UK, Japan, Australia and other allied nations. Second, India has a large and growing market. As for the on-road logistics challenge, many high-tech industry components are shipped via air, therefore sheltering this industry from road and rail logistics that can plague the Indian manufacturing supply chain. Finally, India also has proximity and long-term trading

alliances with Africa, another large and growing market,” adds Vakil.

China’s deep manufacturing roots

Despite all the advantages that India offers, things won’t move in a hurry. Partly because manufacturing is well entrenched in China. “Almost 95% of Apple’s manufacturing is still in China, which Cook himself had helped build when he was COO of the company,” says an analyst with one of the top five consulting firms, who wished not to be named.

On January 18, *Bloomberg* reported that 14 Apple suppliers from China have been given initial clearance by the government as India pushes for ramping up domestic manufacturing of smartphones. Luxshare Precision and a unit of lens maker Sunny Optical Technology were among companies granted approval. But these suppliers will have to form joint ventures with local partners.

Anshul Gupta, research director, Gartner India, says, “Consumption of premium-segment devices is expanding globally. India can cater to that rising demand. But ecosystem development (read component manufacturing) will take longer to materialise.” Also, Apple doesn’t do things in a hurry. “While Cupertino is happy with output from India, it won’t rush into scaling up. Apple likes to micro-manage and ensure products meet its strict quality standards,” adds the consultant quoted above.

Even with manufacturing in China, Apple actually sources product components from around the world. Apple designs

the iPhones in California and sources raw material and components from more than 40 countries which are sent to factories in China. “It is difficult for any country to rapidly scale to China’s volumes, manufacturing acumen and decades of expertise. Supply chains will be dependent on China for many years more,” Vakil points out.

She elaborates that when you map several tiers down the supply chain, there is a reliance on smelters to process raw ore and purify the core raw materials that go into many high-tech components and products. It is unlikely that this type of industry can be replicated at scale quickly.

“Where countries like India will play a key role is to provide greater resiliency by having good quality back-up sites, where a portion of the manufacturing can be conducted. And this is valuable for protecting against any one country becoming a critical failure point in the supply chain,” Vakil adds.

Resilinc’s projection is that the supply-chain network will stabilise eventually. China will continue to be in the network as a source of components.

How India can create stickiness

Analysts and industry watchers say Indian companies should get into sub-assemblies to create the stickiness factor with Apple.

“The brand is not local, manufacturers are not local but they (Apple) are choosing India to create a base. They can shift that base anywhere else in, say, five years. So, India has to

create stickiness so that Apple can get something beyond a factory location,” says Gupta of EPIC Foundation. In short, India needs to create sub-assemblies like camera modules, batteries, sensors, chargers and so on.

The sub-assemblies are important as they not only create stickiness, but also could lead to local product development. It will help create production knowhow in finished products, much like how Xiaomi, Vivo, Oppo came up in China. India can build on the various pull factors such as local demand, low labour costs (compared to China) and the Production Linked Incentive (PLI) scheme. The push factors are changing geopolitics, rising labour costs in China and the clamour for reducing dependency on one country (think China).

The government is also keen to scale up local manufacturing. According to a Ministry of Electronics and Information Technology vision document, the government is targeting an electronics turnover of USD400 billion (INR26,00,000 crore) by 2025. This will include targeted production of 1 billion mobile handsets by 2025 valued at USD190 billion (INR13 lakh crore) including 600 million mobile handsets valued at USD110 billion (INR7 lakh crore) for exports.

The rest, that is, USD80 billion, would be for the domestic market. Here, a player like Apple can have a larger impact on the ecosystem, attracting global component makers and developing local supply chains.

An analyst, who wished not to be named, points out that

making the Apple iPhone is very different from any other smartphone. “Testing standard for an Apple charger is like doing a CT scan on a human body. Failure rate cannot be more than one in a million. With Apple, it’s like a game of golf and not tennis or badminton. You have to be very patient, concentrate a lot and reduce your handicap.”

For India and Apple it couldn’t be a better time to scale the game and overcome each other’s handicap.

(Graphics by Mohammad Arshad)