



RSM/COAI/2013/200  
November 07, 2013

**Smt. Rita Teotia**  
**Additional Secy. (T)**  
**Department of Telecommunications,**  
Sanchar Bhawan,  
20, Ashoka Road,  
New Delhi -110001

Dear Madam,

**Subject: Feedback on List of Items for Government Procurement**

**References:**

- I. Joint industry letter no. JAC/2012/081 to DoT dated November 23, 2012
- II. COAI letter no. RSM/COAI/225 to DoT dated November 2, 2012
- III. COAI letter no. RSM/COAI/143 to DoT dated July 12, 2012
- IV. COAI letter no. RSM/COAI/144 to DoT dated July 12, 2012
- V. E-mail from Smt. Sangeeta Chugh dated September 27, 2013
- VI. DoT's Notification dated 5th October 2012, [F. No. 18-07/2010-IP]
- VII. DoT's Draft Notification dated October, 2012

1. This has reference to the meeting held at DoT on September 30, 2013 to discuss DoT's Notification dated 5<sup>th</sup> October, 2012 notifying 23 telecom products for providing preference in Government procurement to domestically manufactured electronic products. We would like to reiterate that we fully understand and support the perspectives of the Government in promoting the domestic manufacturing of high technology items.
2. As cited in our earlier submissions, we support domestic manufacturing – in fact, we support manufacturing in India which can not only meet domestic demands but also be able to serve global demand. Manufacturing of telecom products in India should compete in terms of landed cost, delivery, quality, and ease of doing business (especially global consistency on taxation norms, compliance standards, value-add measures). This is essential to make Indian Manufacturing compete with the global supply destinations such as China, Malaysia, Thailand, Mexico as the mega factories in these global nodes are extremely cost competitive due to global volumes vs. serving local demand.
3. As per DoT notification, there are 23 telecom products on which PMA is applicable (Table A) whereas as per DeitY notification, it has 24 products which includes at S.No 15 (GSM 2G & 3G/4G, CDMA based wireless access systems including BTS, BSC, MSC, Media gateway, media server, GGSN, SGSN, Node B, RNC, E Node B, EPC, HLR, SMSC &



other subsystems). We bring to your notice that as per our market information there is no known source of local manufacturing of many of these telecom products. Hence, in the proposed list of telecom equipment for the year 2014-15, these items should not be included for PMA for Government procurement.

Considering that the specific discussion at the meeting in DoT (held on September 30, 2013) was to review the list and to finalize the items/products and we request that a revised list based on this feedback be notified.

4. We learn from our members who attended this meeting and appreciate the clarification given that PMA is not applicable for PSU's (ITI, BEL, BSNL, MTNL, etc.) where procurement is not funded by Govt as mentioned by you in the meeting. We pointed out that PMA is applicable on Govt Procurement, for telecom products purchased for Governmental purposes and not with a view to commercial resale or with a view to use in the production of goods for commercial sale which means if any PSU is procuring any equipment for commercial services then that should not be subject to PMA. E.g. procurement of GSM equipment by BSNL as was highlighted out in this Meeting.
5. We also take this occasion to intimate that certain issues that this Committee must take into account for promoting manufacturing in the country. At present, the ~8% landed cost impediment on account of additional logistics costs due to lack of supply chain, cost of carrying additional inventory, inconsistencies in Taxation, higher costs of local material and procedural complexities at customs and other government compliances, with Indian Manufacturing is deterring companies to setup their global nodes in India. (Note: 8% landed cost differential is a very optimistic estimate; in fact, many Government studies & independent viewpoints have estimated this impediment to be in double digits). DoT is requested to review this in detail.
6. Any throughput based financial incentive that bridges this 8% landed cost brings India at parity with existing nodes. Any "top-up" throughput incentives provided by Indian Government would be the real drivers for global companies to consider India as a destination to establish/ramp up their manufacturing facilities.
7. Once India competes (or becomes favorable) vis-à-vis global manufacturing benchmarks, then manufacturing would trigger in following stages:
  - a) **Stage 1:** Final Assembly & Test (also known as Box build or Configuration build);
  - b) **Stage 2:** Printed Circuit Board Assembly (PCBA);
  - c) **Stage 3:** Local sourcing of components. Given the global nature of component supply base, Value-Added (VA) measure based on % local Bill of Material content is infeasible.



8. Broadly, the Bill of Material for a telecom/networking product can be categorized as:-

- a) Plastics & mechanicals (sheet metal, chassis, cables, wires);
- b) Packaging and printed materials (Manuals, packaging boxes etc.);
- c) Specialty electronics;
- d) Semi-conductor (or all things Silicon). See the table below on how ecosystem applies to the simplest product – Set Top Box (STB)

- i. At present, most companies can source:-
  - a. Plastics & mechanicals ( 3-9% of BoM value)
  - b. Packaging and printed materials ~ 1 - 2 % of BOM
  - c. Limited commodities on “Specialty Electronics” (another 1% BoM value max)
- ii. Stage 1 & 2 of Manufacturing (i.e., Final Assembly & Test and Printed Circuit Board Assembly) would be another 3-8% of BoM value
- iii. Note: All of the above figures vary based on product complexity; therefore, it is best to leave VA measure by Stages of Manufacturing that are operationally practical and easily verifiable.

9. To aim higher VA levels, the policy should focus on building out the component ecosystem. No country is self-sufficient given the global nature of manufacturing – but, countries such as Malaysia and Thailand have evolved their ecosystem by focusing on few select commodities.

10. Once companies start manufacturing – i.e., Stage 1 & 2 – it is operationally prudent and financially viable to locally source the components. No company would pay inbound freight and duty to import the components if the same were available locally at competitive cost, delivery, and quality.

An ILLUSTRATIVE STB Bill of Material (BoM)

Commodity category	Component	Suppliers (incl. global leaders)	Present in India – Y/N	Indicative Sizing
1 Plastics & mechanicals	•Mechanical fabrication (base cover, sheet metal, ...)	•Flextronics, Supreme	•Y	20% of costed BoM
	•Plastic fabrication •Cables / wires	•Rosti, G-Plast, Nypro •Amphenol, Molex, FCI, Volex	•Y •Y	
2 Electro-mechanical (elect.+ specialty)	•Caps & Resistors (thru-hole)	•Vishay	•Y	5% of costed BoM
	•Heat sinks •Batteries & power supplies •Connectors •Printed Circuit Brd. (2-4 yrs)	•Auto ancillary (e.g. Jindal extruders) •Laird Tech, Murata •Tyco, Molex, FCI, Amphenol •AT&S, Epitome, Ascent	•Y •Y •Y	
3 Semi-conductor (aka Silicon)	•Caps & resistors (SMT)	•Belfuse, Delta, Lineage, Panasonic	•N	70% of costed BoM
	•Inductors & magnetics	•Delta, Jan Mao	•N	
	•Communications module •Diodes •Linear Voltage Regulator •Logic, Memory •Chipsets; Logic devices •Timing devices •Transistor	•Broadcom, Marvell, Maxim •Diodes Inc, Fairchild, ST Micro, ... •Maxim, TI, National Semi, Linear Tec •NXP, Hynix, Samsung, Fairchild, TI •Freescale, Fairchild, Broadcom, PMU •Maxim, Pericom, Kyocera, Analog •Fairchild, Central Semiconductor	N	



11. It is imperative to take stock of the actual manufacturing capacity and abilities of players in the domestic telecom equipment manufacturing segment with a transparent evaluation of their potential to deliver and meet the requirements.

It is requested that the Government and this Committee focus on right enablers (incentives, ecosystem, infrastructure, taxation) as the outcome vision materializes once all of these converge.

We also bring to your notice that the COAI represents the largest cross section of Telecom Equipment manufacturers as our members (List of our members is attached as Annexure). Our members have made very significant investments and have a demonstrated commitment to manufacturing as well as R&D in the country. In view of this it is requested that COAI should be an integral part of this Committee and all discussions at DoT related to telecom equipment manufacturing.

Regards,

**Rajan S. Mathews**  
**Director General**

**CC: Shri. Anil Kaushal, Member (T), DoT**  
**Shri. R. K. Pathak, DDG (IP), DoT**  
**Shri. A. K. Mittal, Sr. DDG (Tec), DoT**



**Annexure**

**List of Members of COAI ( Equipment Manufacturers)**

**Ref:** <http://www.coai.com/About-Us/Members/Associate-Members>

1. Alcatel-Lucent India Limited
2. Nokia Solutions and Networks (NSN)
3. Ericsson India Pvt. Ltd.
4. Huawei Telecommunications (I) CO. PVT. LTD.
5. Cisco Systems India Pvt. Ltd.
6. IBM India Pvt. Ltd.
7. Qualcomm India Pvt. Ltd.
8. Intel Corporation
9. ZTE India Pvt. Ltd.