

Business isn't ringing for sub-₹10,000 smartphones

Strong demand for 5G models and higher component costs among reasons

ARYAMAN GUPTA
New Delhi, 15 March

Smartphones costing less than ₹10,000 — a segment dominated by Chinese manufacturers — is in dire straits in the Indian market as demand shifts to 5G models, and input costs rise amid low margins.

The segment accounted for 46 per cent of India's smartphone market in 2021 and fell to 31 per cent in 2022, according to IDC India, a market research firm. It suffered despite the Indian telecom market, which includes smartphones, core wearables and TWS mobile headsets, doing better than global markets in 2022.

IDC expects the segment to drop in demand and shipments in 2023, as device costs are unlikely to fall. "Due to lower margins in this price segment, fewer vendors are keen on launching devices in this segment, compromised for key feature sets with low demand," said Upasana Joshi, research manager, client devices, IDC India.

Analysts said the segment is shrinking due to increased average selling price (ASP) of smartphones, rising inflation, higher component costs, currency fluctuations, and the arrival of 5G devices.

"The majority segment is dominated by 4G devices, which got hit in terms of supplies during 2020/21 and will continue to remain so going further. There were few telco vendor partnership models launched in previous years in sub-₹10,000 segment, which had middling demand as well," said Joshi.

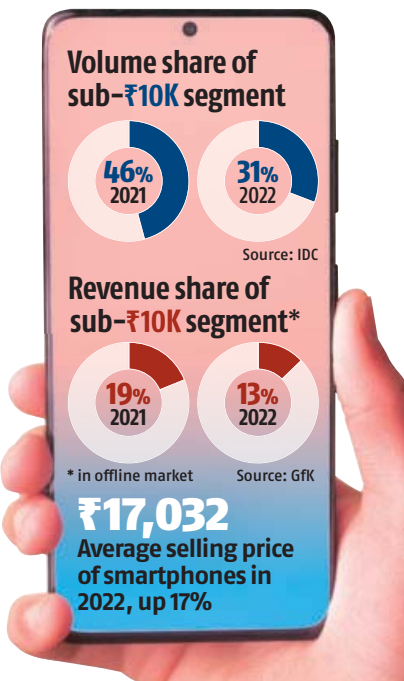
The ASP of smartphones in 2022 stood at ₹17,032, a 17 per cent rise compared to the previous year, according to data from GfK, another market intelligence firm. This increase was due to consumers shifting to a higher price band, fuelled by their changing needs. As many as 37 per cent of smartphones sold in India in 2022 cost ₹15,000 or more. This is an increase of 9 basis points in contribution when compared to 2021, GfK data showed.

5G calling

Demand for premium devices is increasing, with the revenue contribution of 5G models moving to 44 per cent in 2022. At the same time, smartphones with larger storage capacity—of more than 256 GB—grew 122 per cent in revenue in 2022.

"The combination of shift in consumer needs, leading to requirement for

MOVING UP THE VALUE CHAIN



37%
Volume share of smartphones priced at ₹15,000 and above

44%
Revenue share of 5G smartphones in 2022

better features like higher memory, 5G, etc., and availability of easier purchase options like EMI, cashbacks, and trade-ins have all contributed to the shift to higher price bands. The component shortage and the pandemic also played a part and further impacted this shift," said Kartik Vasudevan, telecom market expert at GfK India.

Revenue from the offline market for sub-₹10,000 smartphones declined from 19 per cent in 2021 to 13 per cent in 2022.

Smartphones in this segment do not offer high margins, which is another challenge for original equipment manufacturers (OEM).

"After Covid-19, there has been a re-calibration of the supply chain where it is now

focused on value rather than volume. Due to a shortage of components and raw materials, companies are focused more around safeguarding revenues," said Faisal Kawoosa, founder and chief analyst of technology market research firm Techarc.

"We have seen a stagnation in smartphone shipments recently. Hence, OEMs need to sustain growth in terms of revenue. Companies are, therefore, focusing on higher priced segments where they are able to sell less units, albeit at higher revenue growth," he said.

Key players in the segment include Xiaomi, Realme, and Transsion, which cumulatively hold some 70 per cent of the market share.

On the back of rising inflation, coupled with limited demand, smartphone major Xiaomi witnessed a fall in the sub-₹10,000 segment from 40 per cent in 2021 to 30 per cent during 2022.

"Stepping into 2023, we are laying out a streamlined, cleaner portfolio with a very focussed approach for each segment. We will continue to offer a wide range of options in the sub-₹10K segment," said a Xiaomi spokesperson.

The firm recently introduced Redmi A1 smartphone, priced at ₹6,499 to cater to the market.

"We are committed to offering meaningful innovation with a resolute focus on quality and efficiency. With appealing product lineups and a strong growth strategy, we plan to strengthen our position across categories," the spokesperson added.

Queries sent to Realme did not elicit any response at the time of going to press.

Industry watchers believe that, with the current focus of OEMs on 5G, higher memory and camera features, the shift in the price band is likely to continue towards handsets above ₹10,000 in the next few quarters.

"Vendors are also vacating this space eventually," said IDC's Joshi.

Techarc's Kawoosa said the segment's success would depend on getting the 5G feature in the sub-₹10,000 category. "There is going to be a re-calibration of market leadership in this category. Brands like Lava and Nokia will likely be better positioned in this segment," he said.

GfK's Vasudevan said that the sub-₹10,000 segment will still be important for first-time smartphone users and its growth will come from the conversion of 2G feature phones to smartphones.