Costlier chips may squeeze '26 smartphone sales

SURAJEET DAS GUPTA
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The smartphone sector in India is staring at a sharp fall in shipment and demand next year because the unabated global shortage of memory chips is expected to push up prices by another 40 per cent in January-June.

This will force manufacturers to pass on to customers the entire increase, or part of it, in the bill of material (BoM), which will lead to a cost increase of 8-15 per cent for manufacturing a phone. This will affect demand.

According to Counterpoint Research Director Tarun Pathak, the hit, based on revised estimates, will be hard next year. He said for entry-level smartphones (priced below ₹10,000) shipment in volumes would fall over 15 per cent next year (those account for 18 per cent of volumes of the smartphone market), while shipment across all categories would be down by an average of 3-5 per cent.

With memory chips accounting for 12-16 per cent of the BoM, the burden of the increase in price is higher on low-end phones than on medium- and high-end ones.

The fall comes at a time when growth in smartphone shipment has been stagnant for the last two years. This year shipment is expected at 153 million, which is at the same level as last year. In 2026, it is expected to shrink even further. In terms of value the year 2025 is expected to end with 9 per cent growth because of the increasing trend of premiumisation, leading to an elevation in average selling prices.

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Sudden I-T 'NUDGE' unsettles taxpayers

The board clarified that taxpayers whose deductions or exemption claims are genuine and correctly made in accordance with the law do not need to take any further action.

Taxpayers who do not avail themselves of the current opportunity may still file an updated return from January 1 onwards, as permitted under the law, subject to payment of additional tax liability, the CBDT said.

In 2025-26 so far, more than 2.1 million taxpayers have already updated their ITRs for assessment years 2021-22 to 2024-25, paying over ₹2,500 crore in additional taxes. In addition, more than 1.5 million returns have already been revised for the current assessment year, 2025-26.

The push comes against the backdrop of slower refund processing this financial year. Income tax refunds fell by 13.5 per cent during the period from April 1 to December 17. The sharpest decline, of 24.2 per cent, was seen in non-corporate taxes, which include personal income tax, while corporate tax refunds dipped by 4.4 per cent over the same period.

A senior CBDT official said the messages should not be viewed as punitive. "It's a positive approach by the government. These are just reminders by the CBDT to taxpayers to revise their returns as they still have time until December 31. If taxpayers think that they have not committed any error, they need not panic as these are not notices," the official said.

Abhishek A Rastogi, founder of Rastogi Chambers, said the widespread alerts reflected the increased use of data analytics by tax authorities. "With increased use of data analytics, a large number of deduction mismatches are being flagged simultaneously. Extending the revised return deadline to January 31 would ease compliance pressure and reduce avoidable disputes arising from rushed revisions," he said.

Chetan Daga, a partner at AdvantEdge Consulting Group, said the outreach was intended to flag non-genuine or excessive deduction claims, while leaving genuine cases untouched. He added that employers already verify documents before allowing deductions for tax deducted at source (TDS) purposes.

The current exercise marks the latest phase of the CBDT's NUDGE programme. The campaign began in November 2024 with a focus on undisclosed foreign assets and income, prompting more than 24,000 taxpayers to revise their returns and disclose assets worth about ₹29,000 crore by early 2025. A subsequent nudge in November 2025 again targeted foreign holdings, followed by another in early December 2025 focusing on bogus donation claims.

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According to Pathak, in 2026 value growth in shipment is projected to be up 5-9 per cent, but that will not be because of premiumisation but because companies have been forced to push up prices to defray their increase in the cost of production.

Mobile players acknowledge the challenge.

Xiaomi India Chief Operating Officer Sudhin Mathur said: "A price increase is imminent for us. Most companies have done it. It is not possible to absorb the entire increase in memory prices."

Mathur said while the impact on those buying phones by paying in instalments might be limited, those paying in one go could wait and watch.

A top executive of a leading EMS (electronics manufacturing services) player that supplies to big brands said: "The memory shortage will remain for the whole year because the capacity has been absorbed by artificial intelligence-data centres and new capacity will take time to come. Till then we expect further increases in memory prices. So it will mostly be passed on the customers. This will impact growth."

A senior executive in Lava India endorsed the view. "Prices of phones will go up due to the shortage of memory chips, especially in the entry-level market. We see 2026 to be a challenging year."

Pathak said the rising costs of memory chips and other components were reshaping pricing strategies of firms heading to 2026.

"Rather than broad headline price increases, we expect original equipment manufacturers to lean on shrinkflation, holding retail prices steady while limiting RAM (random access memory) and storage upgrades, particularly in entry- and mid- range smartphones."

Companies in 2026 will bring incremental artificial intelligence-platform improvements but value-conscious buyers may find fewer meaningful specification gains at comparable price points, he added.

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