

Corporate India gears up to hedge China supply risk

SOHINI DAS, SHARLEEN D'SOUZA, VIVEAT SUSAN PINTO, SHINE JACOB & NITIN KUMAR

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The surge in Covid cases in China has raised concern over supply-chain disruption, especially for Indian companies that import critical components and raw material from the neighbouring country. Between April and October this year, imports from China grew nearly 18 per cent year-on-year to touch \$60.27 billion, according to data from the Ministry of Commerce.

The sectors in India that import from China include pharmaceutical (pharma), automotive (auto), textile, engineering, and electronic goods. These sectors remain at risk, says Chokkalingam G, founder and managing director (MD), Equinomics Research & Advisory.

"While companies have realised the importance of derisking their business models over the past two years, the dependence on China remains high. If the current crisis in China persists, it could hurt production," he says.

Firms say they have adequate inventory levels, in the event of a supply-chain disruption. The pharma industry, which imports 60-70 per cent of its raw material from China, says it has a three-month back-up inventory. Viranchi Shah, president, Indian Drug Manufacturers' Association, says there are enough stocks of important active pharmaceutical ingredients and medicines in the system.

"If the situation sustains, it could upend production and affect drug prices in January/February," says an executive from a large Gujarat-based pharma company.

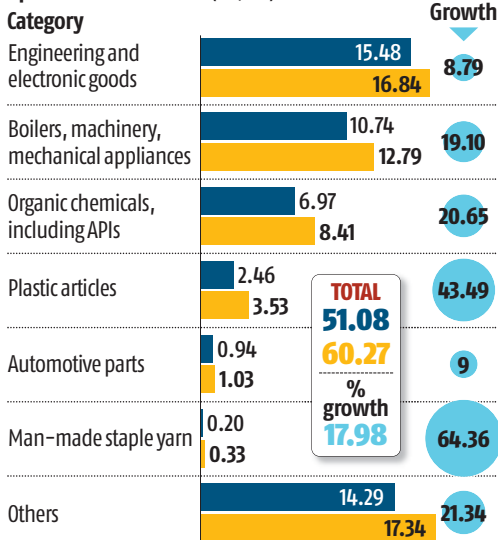
"Players had inventory because of the festival season. There is availability of parts right now," says Vinnie



API: Active pharmaceutical ingredient

DRAGON'S GRIP

Indian imports from China Apr-Oct ■ 2021 ■ 2022 (in \$ bn)



Source: Directorate General of Commercial Intelligence and Statistics, Kolkata

Mehta, director-general, Automotive Component Manufacturers Association of India. Experts say auto companies have a month's inventory as back-up to buffer against production anomalies in the event of a further spike in cases of Covid in China.

Ajinkya Firodia, MD, Kinetic Engineering, says the firm wasn't dependent on China for its electric two-wheeler Luna, which will commence production shortly at Ahmednagar. All parts for the electric Luna have been developed indigenously, he adds.

"But there is a huge market for electric three-wheelers in North India, where about 30,000 units are sold every month. This market is dominated by the unorganised sector, which sources 80-90 per cent of its components from China. This segment could feel the heat of disruption in Chinese production," he says. Several companies, including Maruti Suzuki India, and some European automakers also undertake block closures of their plants (for maintenance) during this

time of the year.

Sourcing strategies have also changed over the past two years as companies adopted a China-Plus-One strategy. Onboarding multiple vendors in different countries and moving to a 'just-as-is' sourcing model from a 'just-in-time' framework are some of the steps auto companies have taken to mitigate risk, says Mansi Lall, research analyst, Prabhudas Lilladher.

Mahesh Babu, chief executive officer (CEO), India, and chief operating officer of Switch Mobility, the electric vehicle (EV) start-up of Ashok Leyland, however, remains circumspect, saying finding alternative sources to semiconductors, EV batteries, and electronic parts is not easy.

"Supply chain globally is so integrated that some parts or raw material will come from China. All auto companies, including ours, have begun stockpiling critical parts," he says.

K Venkatachalam, chief advisor, Tamil Nadu Spinning Mills Association, says Indian spinning mills

depend heavily on China for viscose staple fibre and viscose staple yarn. "If the crisis is protracted, it is likely to affect production in India," he says.

But consumer durables manufacturers who procure components from China are not adversely impacted yet.

"We are covered. After our conversations with suppliers, we have been assured that people are recovering quickly. While shipments are impacted somewhat, the situation is not that grim," says Atul Lall, MD and vice-chairman, Dixon Technologies (India).

Godrej Appliances has also not witnessed disruptions in shipment of components from China.

"After the first wave, we focused on developing robust local supply chains. We have ramped up in-house manufacturing of components, which we earlier used to outsource. We have developed suppliers in geographies other than China to reduce dependency on one sourcing location," says Anil Verma, executive director and CEO, Godrej & Boyce.