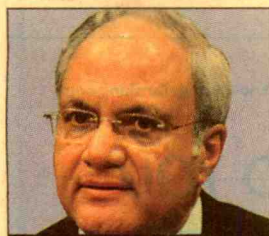


# IT hardware: Vision 2020



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**T**HE worst is behind us. This, however, is not to strike an optimistic chord, but to realise the necessity to focus on an ascent imperative for India — one of the most growth-intensive economies in the world today.

Take the case of the IT hardware industry. In 2005, the total PC units sales were 4.93 million, growing to 8.07 million in 2007. However, 2008 saw a sudden drop in October-December quarter and, hence, only 7.98 million PCs were sold/manufactured in the country. This dropped to 7.82 million in 2009.

Given the direct impact this industry has on GDP, what is required is a sound policy that will drive onwards to a vision spanning the next decade till 2020. Budget 2010 must comprise the uniqueness expected of it, considering it is the first after the global crisis. As for IT, the choice is distinct: an astute focus on making PCs as common as the refrigerator or the television, or even the telephone.

We have come a long way on our road to prosperity. On this road, IT has been the driver, the enabler across sectors. In fact, the electronic highway is as clear and present to India as e-governance stands foremost in development.

Having said this, it is pertinent to make e-governance projects time-bound. Every Budget has a vision and goal for e-governance. What is required is to establish regular and appropriate rollout of projects that will help not only the industry but also enable the government to drive reforms and programmes, the largest potential customer. Whenever the government allocates funds to departments and states, these must be spent in a time-bound manner, i.e., a clear date must be given to spend the funds and complete the project. A recent example has been the APDRP power project rollout by the government, where if the funds are spent in the stipulated time, it will turn a grant into a loan.

It is also essential to convert IT benefits for sectors like education, small and medium enterprises, household and telemedicine, with a focus on rural areas, to make the government's agenda of inclusive growth a success story. In UPA-II's first Budget in July 2009, the education sector got an impetus with Mission in Education through ICT. Programmes like these are not only in sync with developmental goals of the country but also complement IT as a welfare sector.

On the road to this end-result, badly needed on the ground is 'free' access to PCs, therefore, easy financing for hardware. Lack of consumer finance for purchase of IT products, coupled with high interest rates on the one hand and economic downturn on the other, have crippled the growth of domestic IT industry.

Take auto industry, which witnessed a phenomenal growth despite the initial after-effects of the meltdown tremors. Easy financing from banks and lucrative schemes have seen the sector score an impressive double-digit growth. Likewise, PC industry is in need of financing options, more so since household costs have

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escalated because of inflation, and PC purchase has taken a backseat in the common man's scheme of things.

There are recent examples with projects like the Gujarat IT Flood where the rate of PC adoption went significantly up on the introduction of easy loans — as per industry sources, it is estimated that close to 30,000 computers were picked up in a few months through this financing route. Financial institutions like cooperative banks and nationalised banks are actively taking into consideration the need, but it needs a policy push to make financing for PCs a priority-sector funding. Fur-

ther, the overall process of loan disbursement for purchase of IT products should be made simple, time-bound, faster and easy for the consumer.

A simple step could also be 100% depreciation offered on PC purchases — via the tax-exemption route — to make them as common as household electronic goods. The fiscal incentive package, which announced excise duty/CVD rates at 8% on all IT hardware products, should remain, even if the government, burdened by the ballooning fiscal deficit, decides to revisit the stimulus as the industry is still struggling. Structural congruity is compromised by the lack of alignment between the rate of service tax (currently at 8%) and excise duty or CVD (10%).

On software, the government policy must support purchasing of genuine software. The duty policy has been fuzzy for the last three years. Do software products attract service tax or VAT? Currently, both are charged. In addition, there is CVD on media. This has created severe hardship in the distribution of software products in the country and the cost of software has unnecessarily gone up. This needs immediate correction.

Another key issue is the policy on abatement that continues to plague the industry. Excise duty or CVD on IT products, including notebooks, printers and set-top boxes, continue on their MRPs since January 2005. There is a provision of 20% abatement in the local taxes and the channel margins. However, the current abatement rate is a far cry from the prevailing cost structures. With the current applicable rate, effective duty has gone up by at least 50%. What is required, therefore, is that the abatement rate be brought up to 35%, on a par with similar consumer durables.

Budget 2010 must also be tuned to contain outflow of foreign currency reserves in the long run, considering that between calendar 2014 and 2020, India is slated to foot a higher electronics import bill than its total payout for oil imports. By this fact, an elaborate scope of reduction in the country's electronics imports and maximisation of domestic manufacturing of IT and electronic items is primary. I believe the government must set up a national electronics mission to create a comprehensive environment for electronics manufacturing.

We do have an opportunity to make a difference. This should be connected to a priority for a long-term vision for electronics hardware manufacturing.

*(The author is chairman and CEO of HCL Infosystems)*