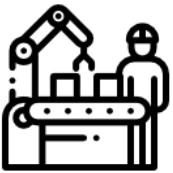


# Contract Manufacturing Report November 2019



# Contract Manufacturing Overview



## What is Contract Manufacturing

Contract manufacturing is the outsourcing of part of the manufacturing process of a product to a third-party.

Manufacturers can save significant money on labor, materials and other expenses related to production.

As long as the company maintains oversight, contract manufacturing can permit a company to lower its production cost, maintain quality of its production and increase its profit margins.



## India Contract Manufacturing Advantages

### Manufacturing Labour Cost, 2016 (\$/hour)

**\$1.72**  
India

**\$2.38**  
Vietnam

**\$2.06**  
Philippines

**\$4.99**  
China

**\$9.82**  
Taiwan

### **Govt permits 100% FDI in contract manufacturing**

(11<sup>th</sup> August 2019)

Allowing 100% FDI through the automatic route for contract manufacturing is true to the Make in India initiative and will attract global companies in India looking to establish alternative manufacturing hubs

### **New contract manufacturing units eligible for 15% tax benefit**

(30<sup>th</sup> September 2019)

India is keen to attract manufacturing companies that are looking to diversify their production out of China. The latest scheme has made the country one of the lowest tax jurisdictions in South and Southeast Asia

# Sectors Preferred in Contract Manufacturing



ELECTRONICS



AUTOMOBILES



PHARMACEUTICALS



FOOD PROCESSING



TEXTILES & APPAREL



LEATHER



# Successful Contract Manufacturing Listings



Amber Enterprises India Ltd is a prominent solution provider for Air conditioner OEM/ODM Industry in India. It has a dominant presence in RACs complete unit and deals in major RAC components with 10 manufacturing facilities across India.

<b>2018 IPO</b>	<b>Subscription Status</b> <b>Over - Subscribed</b> <b>165X</b>	<b>Anchor Investors</b> <b>Goldman Sachs, Blackrock, ADIA</b>	<b>IPO Valuation</b> <b>INR 2701 Cr</b>
<b>2016</b>	<b>Secondary Sale</b> <b>ADV Partners</b> <b>INR 350 Cr</b>	ADV Acquired a 34% stake from existing investor Fairwinds PE and a 10% stake from the promoters	<b>Return to ADV</b> <b>3X</b>
<b>2012 &amp; 2013</b>	<b>Private Equity</b> <b>Fairwinds PE</b> <b>INR 110 Cr</b>	Fairwinds PE invested in two tranches 2012 and 2013 to acquire a 34% stake in Amber.	<b>Return to Fairwinds</b> <b>2.5X</b>




Dixon Technologies (India) Limited is the largest\* home grown design-focused and solutions company engaged in manufacturing products in the consumer durables, lighting and mobile phones markets in India.

<b>2017 IPO</b>	<b>Subscription Status</b> <b>Over - Subscribed</b> <b>117X</b>	<b>Anchor Investors</b> <b>Steadview Capital, Kuwait Investment Authority</b>
	<b>IPO Valuation</b> <b>INR 1946 Cr</b>	Upon listing MOPE made 15 times its investment nine years after it first picked up stake in Dixon technologies
<b>2008</b>	<b>Private Equity</b> <b>Motilal Oswal</b> <b>INR 40 Cr</b>	Motilal Oswal Private Equity (MOPE) acquired a 30.06% stake in the company



# Continued Private Equity Interest in Contract Manufacturing








**HINDUSTAN FOODS LIMITED**

**FACT SHEET**

Hindustan foods limited is 3 decade old contract manufacturing company having core competencies in FMCG & leather products.


<b>Funding</b>  <b>INR 108 Cr</b>	<b>Investors</b>  
<b>Key Clients</b>  	<b>Revenue : FY19</b>  <b>INR 237 Cr</b>



**SUCCESS THROUGH INNOVATION**

**FACT SHEET**

Emcure Pharmaceuticals, headquartered at Pune in West India, is an Indian pharmaceutical company. The company's products include tablets, capsules, and injectables.

<b>Funding</b>  <b>INR 230 Cr</b> (by Blackstone)	<b>Investors</b>  
<b>Secondary Transaction</b>  <b>INR 700 Cr</b> (Bain capital bought Blackstone's stake)	<b>Manufacturing Units</b>  <b>11</b> Globally

Source: News Articles, company websites

# International Contract Manufacturers Investing in India



Foxconn's plans are to support higher levels of manufacturing of existing clients such as Xiaomi & Nokia phones. **It has applied to the government to invest Rs 2,500 Cr**



Taiwan-based shoe maker Feng Tay Enterprise, that produces and supplies to iconic footwear brand Nike is on expansion mode. After having **invested Rs 1,000 crore** in two special economic zones (SEZs) at Cheyyar and Bargur, it is now scouting for land in Tiruvannamalai region



US electronic component manufacturer Flex is considering ramping up investments in India to expand its manufacturing capabilities and increase its exports. The company has made up its mind to **invest about INR 3500 Cr**



The company initially had plans to invest Rs 900 crore, but now they have proposed to **invest Rs 1600 crore** in the first phase and further up to **Rs 3300 crore** in the subsequent phases. Wistron already has an iPhone manufacturing unit at Peena in Bengaluru



Source: News Articles, company websites

# Concluding Remarks



- 1 As manufacturing cost increase worldwide, we see a lot of potential for India to become a global contract manufacturing hub with its large pool of labour and geographical location
- 2 Although automation, especially in the far east factories, has reduced the need for labour in manufacturing, India is still catering to a lot of industries which require customization and are labour intensive.
- 3 With a lot of investment expected in contract manufacturing in the upcoming years, it is safe to say that this sector will also attract a lot of private equity interest
- 4 Although India has many contract manufacturing firms who have been able to scale their revenues and profits but we foresee certain gaps which these companies need to cover up to be fundable
- 5 Healthy cash flows, social compliance, good audit records and the risk of not getting marginalised are just few of the parameters that private equity investors look for before investing

# About Transjovan Capital

TRANSJOVAN CAPITAL is a premier new-age Board Advisory firm, focused on providing advice to clients pertaining to Corporate Strategy, Mergers & Acquisitions (M&A), Joint Ventures (JV), Capital-raising (Equity & Debt) and Organization Development.

With offices in New Delhi and Mumbai, the Firm is a preferred Board-advisor to emerging as well as established corporates. The Firm's team has advised clients spread across SMEs, large Indian Conglomerates, Institutional Investors, Fortune 500 Corporations, Government Authorities and New Ventures.

The Firm has received top industry recognition, some of them being:

- 'Fastest growing BFSI Companies in India' - 2016
- 'Most Promising M&A Advisory Companies in India' - 2015
- 'Most Promising Financial Consulting Companies in India' - 2014

### Select Team Credentials:

- ✓ Advised on 100+ assignments for clients in the areas of corporate strategy and finance.
- ✓ Collective deal experience of USD 1+ Bn in the transaction advisory space.
- ✓ Access to 200+ PE/VC/Corporate investors
- ✓ Advised 4 of the top 10 largest Indian conglomerates in the areas of M&A advisory and business strategy.
- ✓ Advised across various geographies in India (i.e., Metros, Tier-II & Tier-III locations, etc.).
- ✓ Advised on India entry strategy and JV advisory to various MNCs.
- ✓ Extensive relationships with major Financial Institutions, Private Equity funds and various Institutional Investors - in India and globally.

For more info about the company, you may refer to: <http://www.transjovancap.com>

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