

# Xiaomi trips up on long march through India

New Delhi turns up heat with allegations of illegal remittances to parent

CHLOE CORNISH — MUMBAI

As the managing director who brought Xiaomi to India in 2014, Manu Kumar Jain was the face of the company. He danced in its advertising campaigns.

Under Jain, Xiaomi's rise was swift. It rose from 6 per cent of India's smartphone market in 2016 to 27 per cent three years later, beating Indian brands and Samsung and paving the way for other China marques. About three-quarters of India's market is controlled by Chinese-owned companies.

With Jain the poster boy for India's mobile phone revolution, Xiaomi says it has sold more than 200mn smartphones in the \$38bn revenue market. But that rise is at risk, with India's authorities accusing Xiaomi of unlawfully remitting \$725mn abroad.

The case is being watched for what it means for the future of China tech in India, as local competition tentatively revives. Mukesh Ambani launched the affordable "JioPhone Next" last year, although it has yet to make an impact.

India has an uneasy relationship with the China tech it relies on. After 2020 border clashes, it banned many Chinese apps, including several made by Xiaomi, while making clear telecoms groups should not use Huawei tech.

Promod Nair, an advocate, said that given rising Sino-Indian tensions, "many may be tempted to view this investigation as part of an orchestrated campaign against Chinese economic interests in India". The courts must "resolve the dispute quickly and dispassionately in order to dispel any apprehensions that foreign investors may have about the investment climate".

Although Xiaomi is not provisioning for losses, trouble with the Indian authorities creates more challenges as it defends its dominance in the fast-growing market, and as it contends with investor doubts — Xiaomi's share price has fallen 40 per cent in Hong Kong this year.

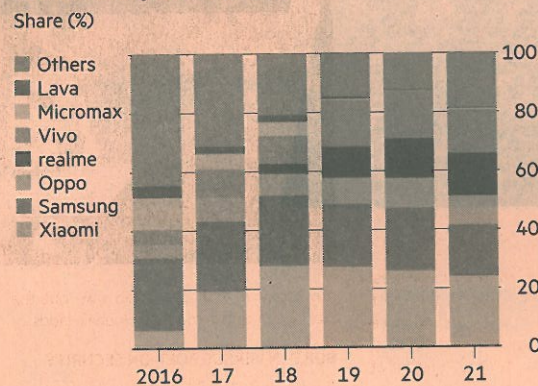
When it arrived in India, "Xiaomi came and took the market by storm", said Prachir Singh, an analyst at Counterpoint Research.

It moved faster than rivals to supply 4G-ready handsets when Ambani's Jio mobile network upturned India's telecoms market in 2016 with cheap 4G services. It kept costs down by selling Redmi phones online for less than Rs10,000 (\$130) through ecommerce



Xiaomi kept costs down by selling its Redmi phones online for less than \$130 — Sajjad Hussain  
AFP via Getty Images

India smartphone market



Source: Counterpoint Research

platforms such as Amazon and Flipkart at a time when, Singh said, "nobody thought it could be done in an online scenario".

Through partnerships, including with Taiwan's Foxconn, Xiaomi's phones were largely manufactured in India under the Make in India scheme. Jain posted selfies with Narendra Modi.

But rival low-cost Chinese brands

threaten its market share. Oppo, Vivo and realme arrived after Xiaomi disrupted the market.

Xiaomi said that it put "small changes" in its market share down to "supply chain disruption. We expect [the] supply situation to normalise by the end of this year".

In an effort to reduce its reliance on the Redmi brand, still its biggest seller, Xiaomi is expanding in the premium smartphone segment. It has pushed into wearables and is India's top smart-TV seller. By increasing its bricks-and-mortar presence, Xiaomi says offline accounts for half its smartphone sales.

But Xiaomi India took a hit during the pandemic. Filings with India's corporate affairs ministry show that Xiaomi India's profits after tax fell 31 per cent for the financial year ending March 31 2021, from Rs4bn (\$51mn) to Rs2.8bn.

"Nobody goes out of the way to discuss profitability," said a former executive. "You can't remain a start-up for more than four years."

In India, legal experts say Modi's government is aggressive in pursuing corporates. Samsung was stung by tax eva-

sion charges last year, and Amway had assets frozen this year.

"The regulatory intensity in the country under this government has generally been very high," said Debanshu Mukherjee, co-founder of the Vidhi Centre for Legal Policy in New Delhi. Enforcement agencies' "prioritisation seems to be loaded with some politics at times". But "it's not that they would go after folks without any violation whatsoever".

Xiaomi's woes began in December when revenue officials raided the premises of "foreign-controlled" mobile phone groups. Days later, the Directorate of Revenue Intelligence alleged that Xiaomi had evaded customs duty, and demanded that Xiaomi pay about \$85mn.

Last month, India's Enforcement Directorate alleged that, since 2015, Xiaomi had violated foreign currency laws by sending \$725mn out of India labelled as royalties "on the instructions of their Chinese parent group entities".

Xiaomi denies making unlawful payments, and its lawyers argue that other companies made payments to an unnamed US company without censure.

But freezing \$725mn in Xiaomi's bank

**\$725mn**

Sum the phone maker allegedly remitted abroad unlawfully

**40%**

Decline for Xiaomi's share price in Hong Kong this year

'Many may be tempted to view this as part of an orchestrated campaign against Chinese economic interests'

accounts left Xiaomi "not in a position to pay salaries/wages to its employees", Xiaomi's lawyers told a High Court judge, who permitted Xiaomi to use its accounts for business expenses, court filings show.

The dispute became acrimonious when the Enforcement Directorate denied allegations that its officials had threatened Xiaomi executives, including Jain, triggering a diplomatic salvo from China.

The Chinese embassy said it hoped the "Indian side can provide a fair, just and non-discriminatory business environment for Chinese companies".

Meanwhile, Jain, once a symbol of how Xiaomi stormed into India's tech scene, is no longer in charge. He is in Dubai and a global vice-president at Xiaomi, according to his Twitter profile.

Xiaomi said that since mid-2021, its India business had been managed by chief operating officer Muralikrishnan B, chief business officer Raghu Reddy and chief financial officer Sameer BS Rao. Despite Jain's departure, Xiaomi insisted that "there is no leadership vacuum".