# Auto PLI distorted e2W market, hurt innovation: C-DEP report

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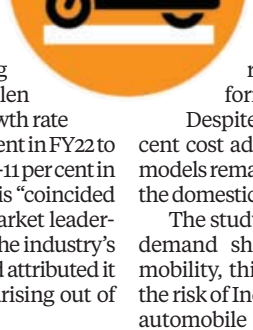
The production-linked incentive (PLI) scheme for the automobile sector has created market distortions, excluded innovation-led electric two-wheeler (e2w) makers, and failed to convert cost advantages into export competitiveness, with 77 per cent of export volumes driven by non-PLI models, said a report released by the Centre for Domestic Economy Policy Research (C-DEP) on Friday.

The study stated that by prioritising scale-based eligibility thresholds over innovation capability, product development and intellectual property creation, the scheme had unintentionally distorted competition within India's e2w sector.

It noted that early-mover original equipment manufacturers (OEMs) that pioneered e2w technology, invested in research and development (R&D), achieved high domestic value addition (DVA) -- the share of components and manufacturing carried out within India -- and built intellectual property portfolios remained excluded from production-linked support.

The auto PLI scheme, approved by the Union Cabinet on September 15, 2021, had an outlay of ₹25,938 crore over five years and aimed to promote domestic manufacturing of advanced automotive technologies through incentives linked to incremental sales. Of 115 applicants, 82 companies, including vehicle manufacturers and auto component firms, had been approved. Under the rules, an OEM had to sell at least ₹125 crore worth of eligible vehicles in the first year and grow those sales by at least 10 per cent annually to continue receiving incentives.

On the objective of scaling domestic manufacturing, the report stated that while the scheme had increased overall production volumes, it had also led to significant market distortion. Between FY23 and FY25, growth among non-PLI players had fallen sharply. Their sales growth rate declined from 407 per cent in FY22 to -33 per cent in FY24 and -11 per cent in FY25. The study said this "coincided with a reordering of market leadership, at the expense of the industry's innovation engine," and attributed it to "market distortion arising out of PLI intervention".



Non-PLI companies considered in the analysis included Ather, Ampere, BGauss, Revolt, Wardwizard, Purev, Kinetic Green and Okaya, while PLI beneficiaries included Hero MotoCorp, Ola, TVS and Bajaj.

The report noted that several OEMs that had ranked among leading sellers before the entry of large-scale incumbents lost market share following the introduction of PLI-induced cost differentials.

On overcoming cost disabilities and building global competitiveness, the study found a divergence between incentive access and export outcomes. While India's e2W exports had grown in absolute terms, 77 per cent of export volumes were driven by non-PLI models. "This suggests that the scheme's incentives have been primarily used to capture domestic market share rather than to develop export-ready technology platforms," the report stated.

Despite conferring a 13-16 per cent cost advantage, PLI-approved models remained largely focused on the domestic market.

The study warned that as global demand shifted towards electric mobility, this trend could increase the risk of India losing its traditional automobile export market to Chinese manufacturers such as Yadea, Sunra, Aima, Niu, Tailg and CFMoto.

On supporting innovation in advanced automotive technologies, patent filings and product development data showed that a significant share of innovation activity originated from OEMs outside the PLI framework. The report noted that the scheme had concentrated resources among incumbents that had largely avoided difficult-to-electrify segments. This was particularly evident in electric motorcycles. Although motorcycles accounted for a large share of India's two-wheeler market, mass-market electric motorcycle offerings remained limited among PLI beneficiaries.

"Most electric motorcycle and high-performance platforms have been developed by non-PLI OEMs," the study stated, adding that these firms faced higher capital requirements and did not receive production-linked cost support, which limited their ability to scale.

A similar pattern was observed in low-speed electric scooters used for delivery and fleet applications. Despite clear policy-driven demand, PLI beneficiaries had not entered this segment due to lower margins. "The PLI entities are getting a larger margin in the PLI models thus disincentivising them from focusing on the low-value low speed e-scooters," the report stated, adding that this had left the Indian market reliant on imports, particularly from China.

On localisation, the report noted that access to the scheme remained uneven despite comparable levels of domestic value addition across OEMs. Several non-PLI OEMs met stringent localisation norms under the PM E-DRIVE phased manufacturing programme but remained excluded from the auto PLI scheme.