

2-wheeler EV makers under fire for FAME pricing violation

After localisation, govt probe widens into price cap breach

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The ministry of heavy industries (MHI) is widening the scope of investigation into the alleged misappropriation of the FAME subsidy for electric vehicles (EVs). The ministry has asked some of the top players in the electric two-wheeler space to explain how the maximum ex-factory price cap was being breached.

Senior officials confirmed to *Business Standard* that MHI had initiated a probe into the matter and had sent out letters to some of the top original equipment manufacturers (OEMs), asking them to explain their pricing. *Business Standard* has reviewed a copy of the official communication on the investigation.

India's largest OEMs (by sales number) in the EV two-wheeler segment are Hero Electric, Okinawa, Ola Electric, Ampere Vehicles, Ather Energy, TVS and Bajaj Auto.

Last year, the ministry had taken action against OEMs for violating localisation norms and several companies including Okinawa Scooters and Hero Electric were barred from claiming subsidies under the FAME scheme.

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FAME RULES

- ▶ The govt provides subsidy of ₹15,000 per kWh for electric two-wheelers with a cap of 40 per cent of the vehicle's cost and a maximum ex-factory price limit of ₹1.5 lakh
- ▶ The subsidy for EV makers ranges between ₹17,000 and ₹66,000 per electric two-wheeler
- ▶ Ex-showroom price that companies show customers is **ex-factory price plus transportation charge and dealer's commission**



THE ALLEGATIONS

- ▶ Some OEMs have breached the ₹1.5 lakh ex-factory price threshold
- ▶ To keep ex-showroom cost below ₹1.5 lakh, firms have started pricing the charger and performance upgrade separately, over the ex-showroom price

developer and investor confidence and (b) freeing up financial resources locked in disputes. However, over the medium term, the infra sector particularly needs a framework for contract renegotiations that can minimise disputes,” said Arindam Guha, leader (government and public services), Deloitte India. The scheme is likely to offer a settlement mechanism by which the government entity and the private one can settle the matter by signing standardised terms. This will be done by offering graded settlement terms, depending on the pendency level of the dispute, one of the officials cited above said.

EVs...

Automotive Research Association of India (ARAI), the statutory body under MHI which is handling the probe on EV makers flouting the local equipment usage norms, will now look into the pricing issue as well. All those OEMs which were not probed under the localisation norm are now under the pricing default scanner, sources said.

According to the norms

under the Faster Adoption and Manufacturing of Electric (& Hybrid) Vehicles scheme (FAME), the subsidy given to the electric two-wheeler (E2W) makers is linked to adherence to a maximum ex-factory price of ₹1.5 lakh. After complaints were received against E2W makers flouting the price cap norms, the MHI decided to take the investigation forward, a senior ministry official said. “ARAI has sent letters to these OEMs, seeking clarification on the allegations of these companies flouting the ex-factory price cap,” he added. The ex-factory price norm was added to the FAME scheme to make E2Ws affordable for buyers and also boost sales. The FAME scheme provides subsidy to the tune of ₹15,000 per kWh for two-wheelers with a cap of 40 per cent of the vehicles’ cost with a maximum ex-factory price limit of ₹1.5 lakh. The subsidy for EV makers ranges between ₹17,000 and ₹66,000 per electric two-wheeler. According to a complaint made to the MHI, E2W manufacturers have managed to bypass the subsidy eligibility limit of ₹1.5 lakh by separating the ‘EV Charger’ and the ‘Intrinsic Essential Software’ that’s at the

core of the vehicle and without which the vehicle cannot run. *Business Standard* has reviewed the complaint letter to MHI. “If scheme conditions are flouted, requisite action will be taken,” Union Minister for Heavy Industries Mehendra Nath Pandey had cautioned the industry in November 2022. Of the 64 OEMs registered under FAME II so far, at least 17 have been debarred from seeking subsidies, according to data available on the MHI website.

India Inc’s...

In comparison, these companies’ combined operating profit or PBIDT (profit before interest, depreciation and tax) declined 2.2 per cent YoY, and net sales rose 18.2 per cent YoY in Q3FY23. This was the first time in the last nine quarters when interest expenses grew faster than both top line (i.e. net sales) and operating profit.

As a result, the combined net profit of these 888 companies declined 12.7 per cent YoY to ₹1.21 trillion from ₹1.39 trillion a year ago, though earnings rose 17.3 per cent sequentially from ₹1.03 trillion in Q2.

The combined interest