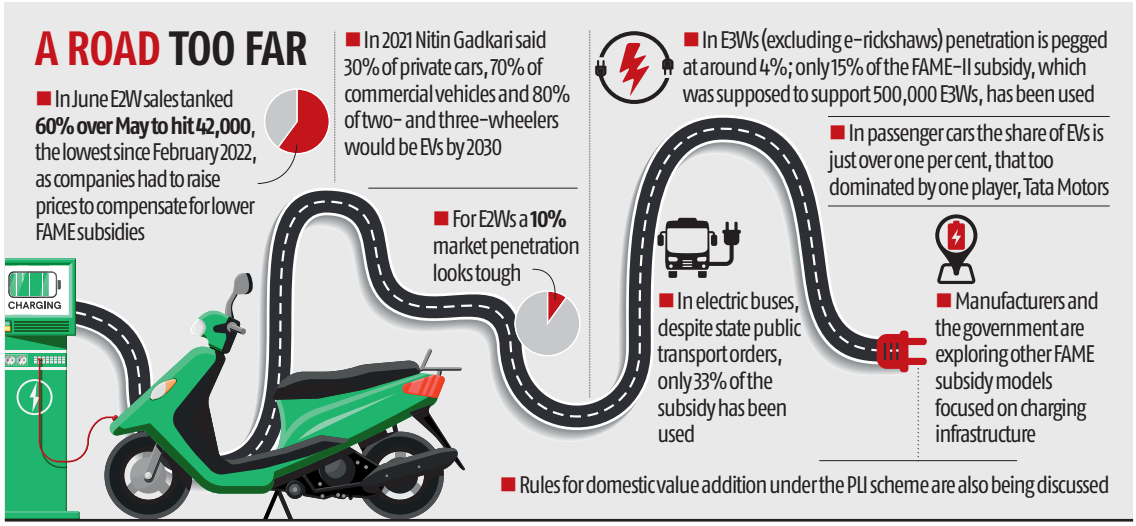
EVs on a brake

After sharp cutbacks in subsidies, manufacturers and the government are arguing over new production-linked incentive schemes



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New Delhi, 11 July

Are the country's electric vehicle (EV) ambitions on a crash course? The answer is clearly in the numbers. The EV revolution, which was kick-started by electric two-wheelers (E2Ws) and hit a market penetration of 7 per cent in FY23 seems to have decelerated fast.

The government's abrupt decision to cut by a third the second edition of the Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles, or FAME-II scheme, and fears that the programme may be halted, are putting the brakes on sales. In June E2W sales tanked 60 per cent over May to hit 42,000, the lowest since February 2022, as companies had to raise prices to compensate for lower subsidies.

"Based on our projections we don't expect sales to hit more than a million compared to 0.72 million last year in FY24," a senior executive of a leading E2W company said. "A lot will depend on the festive season and also our ability to launch trimmed-down scooters that are close to the previous lower price. Otherwise 30 per cent of the potential customers are gone, because they will not find it affordable," he added.

Sohinder Gill, CEO of Hero Electric, which has closed its factory temporarily, said under the best-case scenario the company DID not expect sales to even touch half of the NITI Aayog's ambitious projection of 2.4 million in FY24.

The reality is clear. The government overestimated the EV shift when Nitin Gadkari, minister for highways and transportation, announced ambitious targets of penetration in 2021 — 30 per cent private cars, 70 per cent of commercial vehicles and 80 per cent of two and three-wheelers would be electric by 2030.

The overenthusiasm was also reflected in 2019 when internal combustion engine (ICE) two-wheeler makers were pulled up by NITI Aayog for being un-ambitious when they opposed a government proposal that wanted them to migrate 100 per cent of their sub 150cc ICE two-wheelers models to electric by 2025.

Incumbent ICE players led by Rajiv Bajaj and TVS supremo Venu Srinivasan had made it clear that pushing an impossible target was "uncalled for". But the think tank hit back, asking them how much time they needed to transition — 10, 15, maybe 50 years? — when their products are large carbon emitters. Yet in 2023, ICE players seemed vindicated: even a 10 per cent market penetration for E2Ws looks tough now.

In electric three-wheelers (E3Ws) (excluding e-rickshaws) penetration is pegged at around 4 per cent, and even optimistic estimates by Bain & Co said it will be half (40-45 per cent) of the government's ambition for 2030. Car aggregators say that in Delhi, the country's largest auto market, even though the government has opened out around 5,000 permits for E3Ws there have been few takers owing to the limited availability of models and high price of a lithium ion powered vehicle. As a result, only 15 per cent of the FAME-II subsidy, which was supposed to support 500,000 E3Ws, has been used.

The story is repeated in electric buses, where despite state public transport orders, only 33 per cent of the subsidy has been used.

In passenger cars the share of electric is just over one per cent, that too dominated by one player, Tata Motors. Electric cars account for 10 per cent of the company's sales in FY23, but it hopes to hit 50 per cent by 2030 as it introduces more affordable sub-₹10 lakh products to push volumes.

But that is clearly not enough to hit 30 per cent market penetration levels unless other players pitch in aggressively. Hyundai has announced ambitious plans. It expects to introduce six new EVs by 2028. Its two premium models, Kona and iQonic, sell 160-170 units a month. As Bhavish Aggarwal of Ola Electric, which also plans to enter the electric car segment soon, had pointed out, "It will take another two to three years when consumers will have a lot of choices and then the market will expand".

The key, however, lies in the future of FAME-II subsidy. If it is not extended EV prices will soar and slow the government's own market adoption and emission targets. The question is: how much time will it take for consumers to return and vehicle makers to trim costs in a post-FAME situation.

Discussions with the government suggest that a different subsidy model may be emerging that is more sharply focused on encouraging public transportation and EV infrastructure. Many vehicle aggregators and incumbent players have questioned why customers who can afford a ₹1 lakh-plus two-wheeler vehicle should be given a subsidy at all.

Others suggest that the short-term pain could be a blessing in disguise. Rajiv Bajaj, for instance, has publicly said the EV subsidy policy has been flawed and disincentivises innovation and encourages corruption. Instead of throwing money on vehicle subsidies, he has suggested the funds be used to build infrastructure, especially charging stations.

Ola Electric also sees it as a blip of a few months as it focuses on increasing efficiencies and lowering production costs. The company is launching its second major scooter model, which is expected to be a big volume driver. And that will be followed by other scooter launches.

The other contentious issue between government and the vehicle makers is defining the rules of domestic value addition (DVA, which has to be 50 per cent) to be eligible for the production linked incentive (PLI) scheme for E2W and E4Ws. The incentives range from 12 to 16 per cent on the sales value starting from FY23, but money will be disbursed from FY 24 and could go some way in reducing production costs and replacing the old FAME subsidy regime.

After months of discussions, a standard operating procedure for calculating DVA has been agreed upon. For instance, they no longer have to detail out the value addition of tier 2 or tier 3 components suppliers, which eases the process.

But in E2Ws, the battle is still on. Manufacturers have sought clarification on the DVA for the PLI scheme. They have asked for a relaxation on the 25 per cent cap on the imported cell costs (these are still not made in India) and are asking for the actual imported cost to be considered without any cap. That is because battery cells account for a significant proportion of production costs.

They are also pushing for a formula for calculating DVA that will take into account the higher of the ex-factory cost or ex-factory price of the vehicle against only the ex-factory price as currently required. That is needed because many scooter makers might want to sell their EVs at a discount to build volumes.

Clearly, the EVs industry has miles to go to reach the government's targets.