# Crowded electric 2W space likely to see consolidation

## Startups struggle due to mounting regulations, FAME-2 subsidy cut

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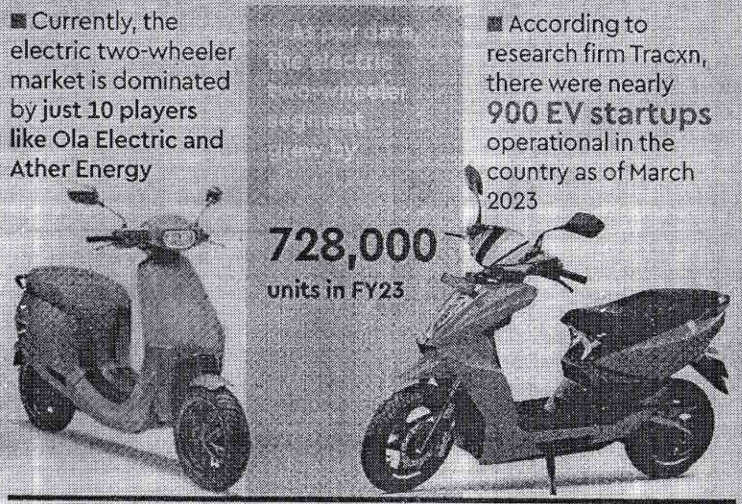
**THE CROWDED ELECTRIC** two-wheeler space may see consolidation as a large number of startups are expected to struggle against big players in the wake of stricter government regulations and cautious investors after a reduction in incentives under the FAME-2 scheme.

Currently, the market is dominated by just 10 players, who sold about 90% of 728,000 units in FY23. According to research firm Tracxn, there were nearly 900 EV startups operational in the country as of March 2023.

Effective June 1, the government reduced the incentives on electric two-wheelers registered under the Faster Adoption and Manufacturing of Electric and Hybrid Vehicles (FAME-2) scheme. This led to an increase of 10-25% in prices and a subsequent crash in sales while cautioning the investor community.

"The announcement about the withdrawal of the FAME subsidy from March 2024 will certainly make potential new investors more circumspect, especially when one reads this announcement in conjunction with the ongoing dispute between the government and more than a dozen prominent EV makers which has led to withholding of their subsidy amounts," said Sudipta Bhattacharjee, partner, Khaitan & Co.

### FEW PLAYERS DOMINATE MARKET




As per data shared by the Society of Manufacturers of Electric Vehicles (SMEV), the electric two-wheeler segment grew by 191% to 728,000 units in FY23 as against 250,000 units sold in FY22.

Most of these startups were set up after the government made public its intention of completely shifting to electric mobility in the long run as the market sees annual sales of more than 20 million two-wheelers.

But market watchers say stricter government regulations, a more concentrated focus by investors and the natural upward progression of the market will lead to dramatic consolidation moves over the next two years.

"Almost 60% of a vehicle's cost is defined by just seven components which are battery motor controller, powertrain, IoT for data and others. A lot of investor money will eventually come in. Slowly but surely, there will be consolidation in every part of the value chain," said a CEO and executive director of one of India's top five electric two-wheeler companies.

Besides the recognised startups players such as Ola Electric, Ather Energy, who are engaged in making high-speed electric two-wheelers, there are several other smaller entities that churn out low-speed vehicles (maximum speed 25kmph) that do not even need registration.

"Agra alone has 40-50 electric two-wheeler brands, which nobody in the rest of the country has heard of. Arun, Vijay and Lucky are the names of these low-speed scooters, which are assembled in some bylanes of Agra. Consider it like a toy on wheels rather than a safe vehicle, entirely built from components imported from China," said another senior executive of the EV startup.

But with cases of EV batteries catching fire and instances of breakage of the vehicle chassis and suspension on the rise due to poor engineering, the government is stepping up regulations on the sector. This has led to challenges not just for small players but for companies that have a national presence.

Munish Aggarwal, MD and head of Equity Capital Markets at Equirus, said, "A large number of players will struggle to scale up and depending on technology/product differentiation will either get absorbed by larger players or will have to pivot into other parts of the ecosystem."