Budget falls short in pushing domestic EVs

PLI scheme and battery manufacturing get more funds but demand sops have been cut, creating an air of uncertainty

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One of this year's Budget proposals was to boost the supply and manufacturing ecosystem for electric vehicles. To this end, it exempted customs duty on import of the minerals — lithium and cobalt, as also extended the concessional customs duty on import of lithium-ion cells until March 31, 2026. India relies on lithium imports, which is key component of EV batteries. So the duty cut is a welcome step.

The Budget increased the allocation to ₹3,500 crore, from ₹3,150 crore, towards PLI Scheme for Automobile and Auto Components, to attract 67 eligible applicants and investment of ₹6,441 crore under the 'Component Champion' category of the scheme.

This Budget has also given a boost to indigenous manufacture of battery components for electric vehicles by allocating ₹250 crore under the PLI scheme for Advanced Chemistry Cell.

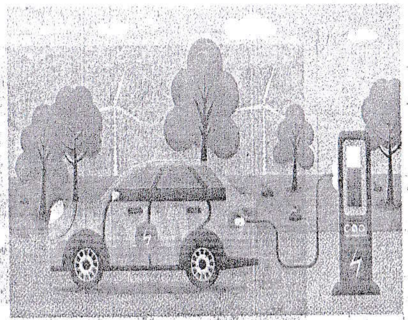
Simultaneously, regulatory intent appears to be veering towards tapering the subsidy regime for demand incentives. This Budget has not introduced the anticipated new FAME-III scheme to bolster demand side incentives. The budgetary allocation for the existing FAME-II scheme has also been reduced (likely in proportion to the remainder of eligible disbursements under the scheme which expired on March 31, 2024).

The Ministry of Heavy Industries also launched the Electric Mobility Promotion Scheme (EMPS) in March to give demand incentives to consumers. This scheme, initially valid till July 31, has now been extended till September 30, subject to the ₹778 crore remaining unutilised.

The hike in EMPS funds allocation, from ₹500 crore to ₹778 crore is a welcome step. It remains to be seen if the specific guidelines for implementation of the 'Scheme to Promote Manufacturing of Electric Passenger Cars in India' (SPMEPC), that was notified on March 15, 2024 to promote manufacturing of electric cars in India by foreign manufacturers, will be notified.

BATTERY SWAPPING

The Budget has not cleared the regulatory uncertainty around battery swapping (a proposed alternative to allay charge anxiety).



ELECTRIC VEHICLES. Budget charge

The government in 2022 had published the draft battery swapping policy after introducing the concept of inter-operability in that Budget (with feedback provided by all key stakeholders).

But the government is yet to put in place a framework for the regulatory regime for battery swapping and there is no mention of this in this year's Budget.

Further, the current GST regime of taxing the EV components higher than the whole electric vehicles (18 per cent on EV battery and EV components and 5 per cent on electric vehicles) continues and the Budget has not addressed the demand for uniform tax slabs.

In summary, the focus of this Budget clearly has been on providing an impetus to indigenous manufacturing and bolstering the supply side eco-system. The reduction of demand incentives may be concerning as manufacturers of electric vehicles continue to face stiff competition from ICE and hybrid models.

Sophisticated non strategic investors may also be cautious in deploying funds, and evaluate the impact of reduced subsidies in this sector.

In light of the ambitious target of 30 per cent EV sales share by 2030, it will be interesting to see if the government comes out with post Budget announcements to deal with these concerns. The government seems to be aware of the concerns and hence has extended the EMPS timeline.

It is further encouraging that the Minister for Heavy Industries HD Kumaraswamy indicated on August 5 that MHI is in the process of formulating a framework for FAME-III.

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