New EV policy clears road for Tesla, other majors

Allows duty cut on imported cars if they invest $500 mn, set up plant in 3 yrs

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The Ministry of Heavy Industries (MHI) on Friday announced a new policy to boost electric vehicle (EV) manufacturing in the country by global players, such as Tesla, VinFast, BYD, Kia, Škoda, BMW, and Mercedes-Benz.

The new policy entails lower import taxes on certain electric vehicles for companies committing to at least $500 million (₹4,150 crore) in investment and a manufacturing plant within three years.

It proposes to reduce import duties for interested EV makers to 15 per cent from the current 70 per cent or 100 per cent on vehicles having a CIF (cost, insurance, and freight) value of $35,000 and above for a period of five years from the date of issuance of the approval letter by the government.

This proposed duty structure aligns with the demands made by Elon Musk-promoted Tesla in its discussions with the Indian government.

According to officials, the policy allows all international players, including Chinese manufacturers, to qualify for a duty reduction, provided they establish manufacturing facilities within three years and achieve a localisation level of 50 per cent by their fifth year of operations in the country.

A senior government official working on the scheme emphasised that the initiative would attract not only global original equipment manufacturers (OEMs) but also existing ones looking to import their EV models not currently available in India.

Turn to Page 5 ▶

THE ROAD AHEAD

Eligibility: The applicant company or its group company will need to meet the following criteria to qualify and receive benefits under the scheme:

- ▶ Global group revenue (from automotive manufacturing) **Minimum ₹10,000 cr**
- ▶ Global investment of company or its group companies in fixed assets (gross block) of **₹3,000 cr**
- ▶ Minimum investment commitment during a 3-yr window **₹4,150 cr ($500 mn)**
- ▶ Maximum investment commitment **No Limit**
- ▶ Domestic value addition during manufacturing **25%** in 3 years and **50%** in 5 years from date of issuance of approval letter by MHI

Source: Policy draft

▶ NEW SCHEME TO PROMOTE EVs MAY PUT TESLA IN FAST LANE P2

'Enough safeguards in place for domestic industry in EV space'

Q&A

The government has ensured adequate protection for the domestic automobile industry in the new electric vehicle policy that provides duty concessions to global players setting up manufacturing units in India, says Maruti Suzuki India's Chairman **R C BHARGAVA** in a telephonic conversation with **Surajeet Das Gupta**. Edited excerpts:

Do you have any concerns about the government allowing carmakers like Tesla to import their cars having a CIF (cost, insurance and freight) value of $35,000 and above at a lower 15 per cent duty, provided they invest $500 million to set up a manufacturing plant within three years?

I am very clear — we support any scheme of the government that encourages new investment and new technology to come into the country, and that is what we hope will happen. The government has ensured and put in enough safeguards to protect the domestic industry in the electric vehicle space, which is in its infancy in the country and requires a lot of protection. So negative impact or damage, if any, will be minimal.

Are these safeguards enough?

Of course! By allowing the import of cars worth over $35,000 (CIF value), which is a very small market segment in the ICE (internal combustion engine) space, and even more so in the EV space, the government has given adequate protection. Also, it has restricted the number of cars that can be imported to a minimum, which again won't impact us.

Turn to Page 5 ▶

R C Bhargava, chairman, Maruti Suzuki India given some indication to investors about the liquidity risk while investing in small-cap schemes, they still may not be a good indicator of identifying the stress that funds may face in real time. "There is no scientific basis for it. It assumes liquidity to be a constant at best and extrapolates the past into the future at worst. If liquidity actually vanishes in a particular stock, it can just vanish not in 6 days or 14 days or whatever other metric is used - it will vanish in a microsecond. Analysis by extrapolation may or may not work. Yes, liquidity is often higher with higher volatility - but it's not a given," said Sandeep Parekh, founder of Finsec Law Advisors, in a social media post.

Govt policy for EVs...

"All entities, regardless of their origin, can partake and seek incentives under the scheme, as long as they commit to a minimum investment and adhere to the prescribed policy guidelines," the official said.

However, companies in the countries that share land borders with India must obtain additional government permission, as outlined in the 2022 amendments to the FDI policy. China, Bangladesh, Pakistan, Bhutan, Nepal, Myanmar, and Afghanistan share land borders with India. Currently, fully assembled completely built-up (CBU) vehicles priced at more than $40,000 attract a 100 per cent tax. Those priced below $40,000 are subject to a 70 per cent tax. Completely knocked-down (CKD) units that require reassembly in the destination country already attract a 15 per cent duty. Although the policy is intended to include all OEMs, it has been introduced against the backdrop of Tesla's strong push for a duty reduction. On December 18, 2023, Business Standard reported that Tesla had requested a reduction in duty on CBUs to 15 per cent and proposed including charging infrastructure within the definition of investment during its meetings with government officials.

According to the policy document, one OEM can get a maximum waiver of ₹6,484 crore in Customs duty.

A notification by the MHI stated that to qualify for the scheme, an applicant company or its affiliated enterprise must have a minimum revenue threshold of ₹10,000 crore from automotive manufacturing, along with a global investment commitment of ₹3,000 crore in fixed assets.

"Under this scheme, EV passenger cars (e-4W) can initially be imported with a minimum CIF value of $35,000 (₹29 lakh), at a duty rate of 15 per cent for a period of five years from the date of issuance of approval letter by the MHI," said the policy draft notification. This means that if a company imports a car costing $35,000 and commits to the minimum investment of $500m, it can import 25,974 cars over five years. However, if the investment amount is increased to $781 million or higher, the company can import 40,582 cars, according to an official. The maximum number of EVs allowed to be imported is capped at 8,000 units per year.

The investment commitment will have to be backed up by a bank guarantee in lieu of the custom duty forgone, the ministry said in a statement.

The bank guarantee will only be refunded upon achieving a 50 per cent domestic value addition and making an investment of at least ₹4,150 crore, or up to the amount of duty foregone over the course of five years, whichever is greater. Applications will be solicited within 120 days or more from the notification of this scheme. The period for accepting applications through the Notice Inviting Applications will extend for 120 days or more. The MHI retains the authority to open the application window, as needed, within the initial two years of the scheme.

Exports...

"The recent tensions in West Asia, especially the threat for consignments routing through the Red Sea has further added to the woes of the exporting community, as freight rates have gone up unimaginably high with the burden of various surcharges. Much will depend on the new contracts to be signed with buyers during the