E-scooter makers divided on impact of subsidy cutback

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Leading electric scooter companies are divided on the extent to which sales will be impacted on account of the reduction of the Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles (FAME II) subsidy by a third on each scooter. However, many players concede that the decision will help them rejig their plans and cut costs in the next 12 months, and prepare for a world that will be without subsidy from April 2024.

The Centre on Wednesday decided to slash the FAME II subsidy on electric two-wheelers to ₹10,000 per Kwh from the existing ₹15,000 per Kwh. The maximum subsidy cap of 40 per cent of the ex-factory price of the vehicle has also been brought down to 15 per cent.

Raising concern about the government's move, Hero Electric CEO Sohinder Singh Gill said, "This will surely impact sales and force many who wanted to buy an electric vehicle to defer their decision or stick to ICE (internal combustion engine vehicles), leading to a slowdown in the conversion. It is not good for the industry."

However, another leading electric scooter company had an opposite view. It said the drop in subsidy would impact sales only for a few months.

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'EV subsidies flawed and unfeasible'

Q&A

Bajaj Auto Managing Director **RAJIV BAJAJ** tells **Surajeet Das Gupta** in an e-mail interview that the FAME II subsidy is a flawed strategy. Edited excerpts:

Do you think the FAME subsidy was needed at all for revving up the electric two-wheeler industry?

In my 30+ years at Bajaj I've witnessed engine technology change from the simple 2-stroke single cylinder carburetted air-cooled era to sophisticated 4-stroke fuel-injected, multi-valve, multi-spark, multi-cylinder, liquid-cooled engines. I've simultaneously witnessed emission regulations go from non-existent to BS6 which is on a par with Euro 5, the world's best.

Was there any government subsidy for this? Not a rupee. It happened basis sound manufacturer strategy driven by the desire to be world-class global brands.

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E-scooter...

"I think we may see a temporary blip for one or two months, but, subsequently, the penetration of electric replacing ICE vehicles will only become faster, and there will be no effect on sales growth. That is because consumers now want to shift to electric," said its top executive, who didn't want to be named.

Most companies in the premium electric scooter segment say they will have to increase prices ranging from 10 per cent to 20 per cent even if they absorb part of the cost. Says the CEO of one leading electric scooter start-up, "The hit due to the subsidy reduction is between ₹30,000- 40,000 per scooter and I don't think any company will be able to absorb the entire cost unless it has huge cash to burn. The current average margins per scooter are around ₹30,000 with the FAME 2 subsidy."

Most premium electric scooter companies say that reduction in the subsidy will lead to the introduction of stripped-down models, with smaller battery sizes (such as 1.5 -2kwh instead of 3 kwh), more basic software options, and so on. This will ensure more price ranges for customers to choose from.

Opinion is also divided on whether the cutback in the subsidy will benefit companies like Hero Electric and Okinawa which have a substantial offering in the ₹70,000 to sub ₹1 lakh segment, or whether it will of advantage to those like Ola, Ather or Bajaj that are in the over ₹1 lakh premium segment.

Gill says that as the subsidy on the affordable electric scooters is around ₹17,000-20,000, its reduction will have a minimal impact on their price, unlike in the premium segment where it is as high as ₹40,000-₹60,000. "What will happen is that the market will shift from premium electric scooters (which constitutes 80 per cent of the electric two-wheeler sales) to the affordable electric scooter segment, as many planning to buy a premium model will now go for an affordable one," says Gill.

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