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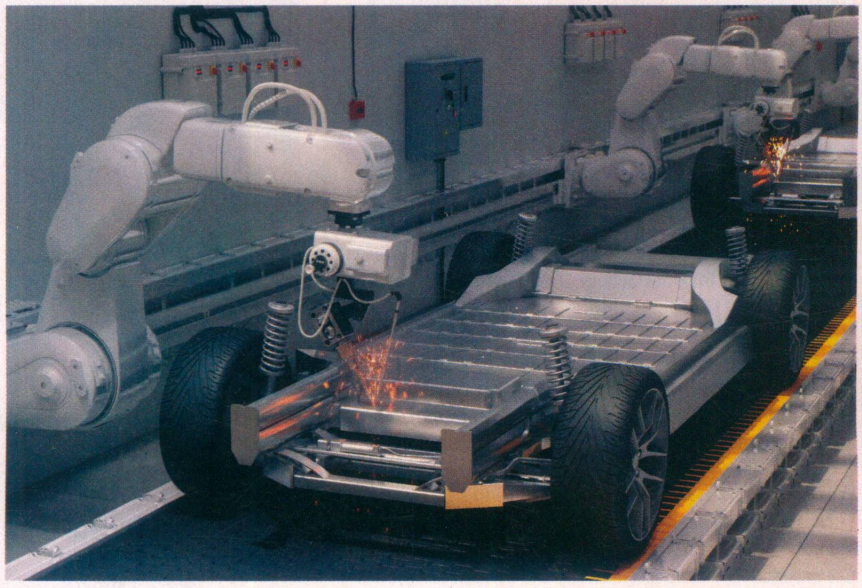
Mon, 01 Apr-24; Electronics For You; Size : 1891 sq.cm.; Circulation:70000;
Page : 38

NEW EV POLICY: Will It Kill More Than Two Birds With One Stone?

With China taking the lead in electric vehicle production and sales in many global markets, can India's new electric vehicle manufacturing policy encourage champion brands to set up shop in India? Can this policy be the turning point for India's automobile industry's bid to go global?

MUKUL YUDHVEER SINGH



"Tesla is struggling to keep pace with China's BYD in a lot of global markets. It is only natural that the US-based electric vehicle maker needs a big market to stay on top of its game," was the first thing an executive from a forecast and market research firm said on being asked about what she thinks of India's new EV policy.

Coincidentally, Elon Musk, who said, "Have you seen BYD's car?" a little while ago, has started saying, "If there are no trade barriers established, they (Chinese OEMs) will pretty much demolish most other car companies in the world!"

India's new electric vehicle policy promises to slash the duties on completely built units (CBUs) of electric vehicles (EVs) from 100% to 15%, but there's a catch. To be able to import and sell CBUs of electric 4-wheelers, the original equipment manufacturers (OEMs) of these companies will have to invest a minimum of ₹4150 crore (approx. US$500 million) to set up manufacturing base in the country.

Sunjay Kapur, Chairman, Sona Comstar & Deputy Chair, CII Northern Region

opines, "This progressive step not only solidifies India's position as a manufacturing hub for EVs but also fosters a conducive environment for global players to invest in our burgeoning market."

What about local champions and China?

Part of various recent policies centred around electronics manufacturing in India has made mention of inviting the global champions of a particular field to set up a base in India. This time around, "reputed global EV manufacturers" has replaced the term "global champions." The government also seems to have stressed on EVs with the latest technology in the policy.

One of the terms of the policy stresses on a "minimum ₹10,000 crore (approx. $1150 million) global group revenue (from automotive manufacturing), based on the latest audited annual financial statements at the time of application." Moreover, the local EV OEMs in India have been raising concerns around the likes of Tesla being given any special treatment in the country, similar to the likes of Tesla getting in their home country!

Ashish Bagadia, Partner, Corporate Finance and Investment Banking, BDO India, says, "The government is not allowing pure import; however, providing some leeway to global manufacturers in terms of timelines for setting up the local manufacturing infrastructure, till the time volumes justify another plant for them."

The price of the most selling electric car in India at present is about ₹14,00,000 (approx. $17,000), whereas the policy mentions the minimum value of the electric cars to be imported as $35,000 (approx. ₹29,00,000), inclusive of cost, insurance, and freight (CIF).

"Over ₹10,000 crore global group revenue added with $35,000 CIF hints that majority of OEMs applying for the policy are going to operate in the above ₹35 lakh segment in India," the analyst says, adding that Tata and Mahindra have been trying to cement their ground in the under ₹20 lakh category.

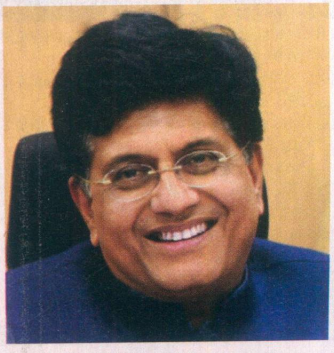
In the long run, the flagship cars of Indian OEMs may find themselves competing against the entry-level variants of international OEMs. For example, the entry-level Tesla 3 might get pitted against the electric version of Tata Safari or Mahindra XUV 700. India's policy clauses on investment made in the country by the neighbours it shares land with will restrict the majority of Chinese companies from competing in the local market. The PN3, announced in 2020, mandated FDI by countries sharing land borders with India, which shall be permitted only with prior government approval.

Vikram Handa, Managing Director, Epsilon Advanced Materials, says, "India's new EV policy marks a pivotal moment in our nation's journey towards sustainable mobility. We welcome this initiative wholeheartedly and are ready to support international EV OEMs like Tesla and others with our indigenous battery materials, effectively mitigating reliance on Chinese imports."

Taking Indian component ecosystem global

According to Shamsher Dewan, Senior Vice President and Group Head - Corporate Ratings, ICRA Limited, this policy would help access global technologies, expand product range, and improve cost competitiveness, all of which would facilitate enhanced EV adoption. ICRA currently expects about 15% of new car sales to be electric by 2030. He says, "This

EV Manufacturing Policy At A Glance



Piyush Goyal, Minister of Commerce & Industry, Government of India

- Minimum Investment required: ₹4150 crore (~$500 million). No limit on the maximum Investment.
- Timeline for manufacturing: Three years to set up manufacturing facilities in India to start commercial production of e-vehicles and reach 50% domestic value addition (DVA) within five years at the maximum.
- Domestic value addition (DVA) during manufacturing: A localisation level of 25% by the third year and 50% by the fifth year will have to be achieved.
- The customs duty of 15% (as applicable to CKD units) would be applicable on vehicles of minimum CIF value of $35,000 (approx. ₹29,00,000) and above for a total period of five years, subject to the manufacturer setting up manufacturing facilities in India within a three-year period.
- The duty foregone on the total number of EVs allowed for import would be limited to the investment made or ₹6484 crore (equal to incentive under the PLI scheme), whichever is lower.
- A maximum of 40,000 EVs at the rate of not more than 8000 per year would be permissible if the Investment is $800 million (approx. ₹6650 crore) or more.
- The carryover of unutilised annual import limits would be permitted.
- The investment commitment made by the company will have to be backed up by a bank guarantee in lieu of the custom duty forgone.
- The bank guarantee will be invoked in case of the non-achievement of DVA, and minimum investment criteria will be defined under the scheme guidelines.

MAXIMUM EVs PERMITTED FOR IMPORT

Example 1	Example 2	Example 3
(a) Committed investment is $500 million (₹4150 crore) (b) The CIF (Cost, Insurance & Freight) price of every EV is $35,000 (c) Current import duty = 70%, proposed import duty = 15% Therefore, duty foregone = (70%-15%) x $35,000 = $19,250 (₹15,97,750), then; (d) Maximum number of vehicles allowed for import during the Scheme = ₹4150 crore ($500 million) ÷ ₹15,97,750 ($19,250) = 25,974 units	(a) Committed investment = $781 million (₹6484 crore) (b) CIF of every EV = $35,000 (c) Current import duty = 70%, proposed import duty = 15% Therefore, duty foregone = (70%-15%) x $35,000 = $19,250 (₹15,97,750), then; (d) Maximum number of vehicles allowed for import during the Scheme = ₹6484 crore ($781 million) ÷ ₹15,97,750 ($19,250) = 40,582 units	(a) Committed investment = $500 million (₹4150 crore) (b) CIF of every EV = $50,000 (c) Current import duty = 100%, proposed import duty = 15% Therefore, duty foregone = (100%-15%) x $50,000 = $42,500 (₹35,27,500), then; (d) Maximum number of vehicles allowed for import during the Scheme = ₹4150 crore ($500 million) ÷ ₹35,27,500 ($42,500) = 11,764 units

Note: If the EVs are imported at varying CIF prices, then the number of vehicles shall be limited by the quantum of the total duty foregone, which is limited to the amount as above.

policy is a step in the right direction and would aid in increasing EV components localisation in India, which is currently at 30-40%. Chassis components that require minimal technology upgradation are manufactured locally. There has been substantial localisation in traction motors, control units, and battery management systems over the years, while battery cells, which constitute 35-40% of the vehicle cost, are still entirely imported."

Further, countries that have been frontrunners in EV adoption have also developed a local vendor ecosystem and, accordingly, the industry also sees this policy as a potential opportunity for going global. EV OEMs applying for the policy benefits will have to achieve a 25% localisation level by the end of three years and 50% by the end of five. Enabling the same would only be possible either by tying up with Indian suppliers or bringing their components ecosystem here. It is the India components ecosystem that will benefit in both these scenarios.

Dewan adds, "This scheme gives rise to manufacturing opportunities for domestic auto component suppliers. For parts that are already used in ICE, there could be technological advancements in certain cases, resulting in higher content per vehicle. The e-PV component market is expected to be at least ₹50,000 crore in terms of revenue potential for ancillaries."

Shradha Suri Marwah, President of ACMA & CMD Subros Ltd, says, "The policy not only aims to attract global EV majors to invest in India but also emphasises a significant domestic value addition criteria, ensuring the creation of a robust supply-side ecosystem."

The Automotive Component Manufacturers Association (ACMA) of India recently released a report titled 'Auto Electronics Manufacturing: Conquering the Next Frontier.' Conducted along with Grant Thornton, the report identifies electronic automotive components as a market opportunity worth $540-650 billion by 2032.

Products like reverse parking guides, DC-DC converters, charger systems, tyre pressure monitoring systems, controllers, telematics units, navigation systems, electronic power steering, power distribution modules, thermal management systems, and engine control systems are highlighted for their high potential and ease of manufacturing. Coupled with nine more products, these are projected to grow from a current $9.3 billion opportunity to $56.4 billion in 2032. It is expected that a lot of these products will be the low-hanging fruits for OEMs to achieve their localisation targets set by the policy.

N.K. Minda, CMD, Uno Minda, believes, "By incentivising indigenous manufacturers to make in India and attracting investments from global EV giants, the policy takes a holistic approach to enhancing the automotive and EV ecosystem."

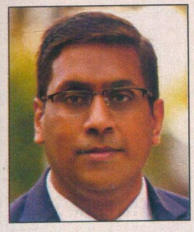
At the same time, Indian EV OEMs might get a chance to work with Tier 1 components and solutions companies who have otherwise been only working with the likes of Tesla and BYD. According to the analyst, "In the longer run, this can be a threat to the existing component ecosystem in the country."

Collaborations in the making

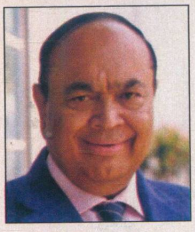
The policy also offers some India-headquartered vehicle OEMs opportunities for collaborating with the top-selling electric car brands of the world. Though India's automobile sector has been a witness to many such collaborations in the past, a lot of these have ended on a bad note.

Clause 2.14 of the policy reads, "Group Company(ies) shall mean two or more enterprises which, directly

Spokespersons



Ashish Bagadia, Partner, Corporate Finance and Investment Banking, BDO India



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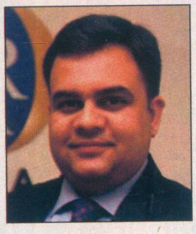

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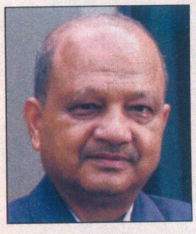

Vinod Aggarwal, President, Society of Indian Automobile Manufacturers (SIAM)

or indirectly, are in a position to: Exercise twenty-six per cent or more of voting rights in the other enterprise; Or Appoint more than fifty per cent of members of Board of Directors in the other enterprise (as defined in the FDI Policy Circular of 2020)."

"Indian companies collaborating with foreign brands will have a big say in the partnerships; the policy has made sure of it," says the analyst. She adds that apart from the Indian market, which will be the focus for initial few years, a lot of foreign OEMs might also want to explore India as a manufacturing and export base for EVs. "Hyundai, Kia, Suzuki, and a couple of other OEMs are already doing that for petrol and diesel cars. Many will calculate if they want to explore the same for EVs as well," she says.

The Indian industry's fear of OEMs dumping petrol and diesel cars in India at low prices might also be done away by the policy. Last year, the financial think tank Carbon Tracker had come out with a report saying that, unless governments adopt policies to seize the benefits of the EV revolution, India and other nations in the Global South risk becoming a dumping ground for used internal combustion engine (ICE) vehicles.

"While the policy might create a win-win for the industry and the end consumer in India, whether it will have an impact on the global EV market remains the big question. It is not possible to manufacture an electric car without having some Chinese element in it," says the analyst.

According to India's Ministry of Commerce, India is the third largest automotive market in the world, and it could lead the global transition from conventional ICE powertrain to a more efficient and decarbonised EV technology. Further, NITI Aayog estimates that by the year 2030, EV transition for 2-wheelers will be 35 to 40%, 9 to 11% for private 4-wheelers, 20 to 25% for shared 4-wheelers, and 13 to 16% for buses. The country saw sales of 4,101,600 passenger vehicles during the January to December 2023 period.

Vinod Aggarwal, President, Society of Indian Automobile Manufacturers (SIAM), says, "Various schemes of the government of India that have been operational now are showing good results, and are also helping the auto industry to seamlessly transform to new powertrain realms. The auto industry is optimistic that the growth momentum would continue in 2024 as well." But, by the time of this article going to press, SIAM was yet to make a statement on the new EV policy. EFY

Mukul Yudheer Singh is Editor for MOVES and ElectronicsB2B at EFY Group