BUSINESS

Budget 2022: EV segment to benefit from Nirmala Sitharaman's policy measures

Union Budget 2022-23: Battery swapping is likely to gain acceptability in commercial applications

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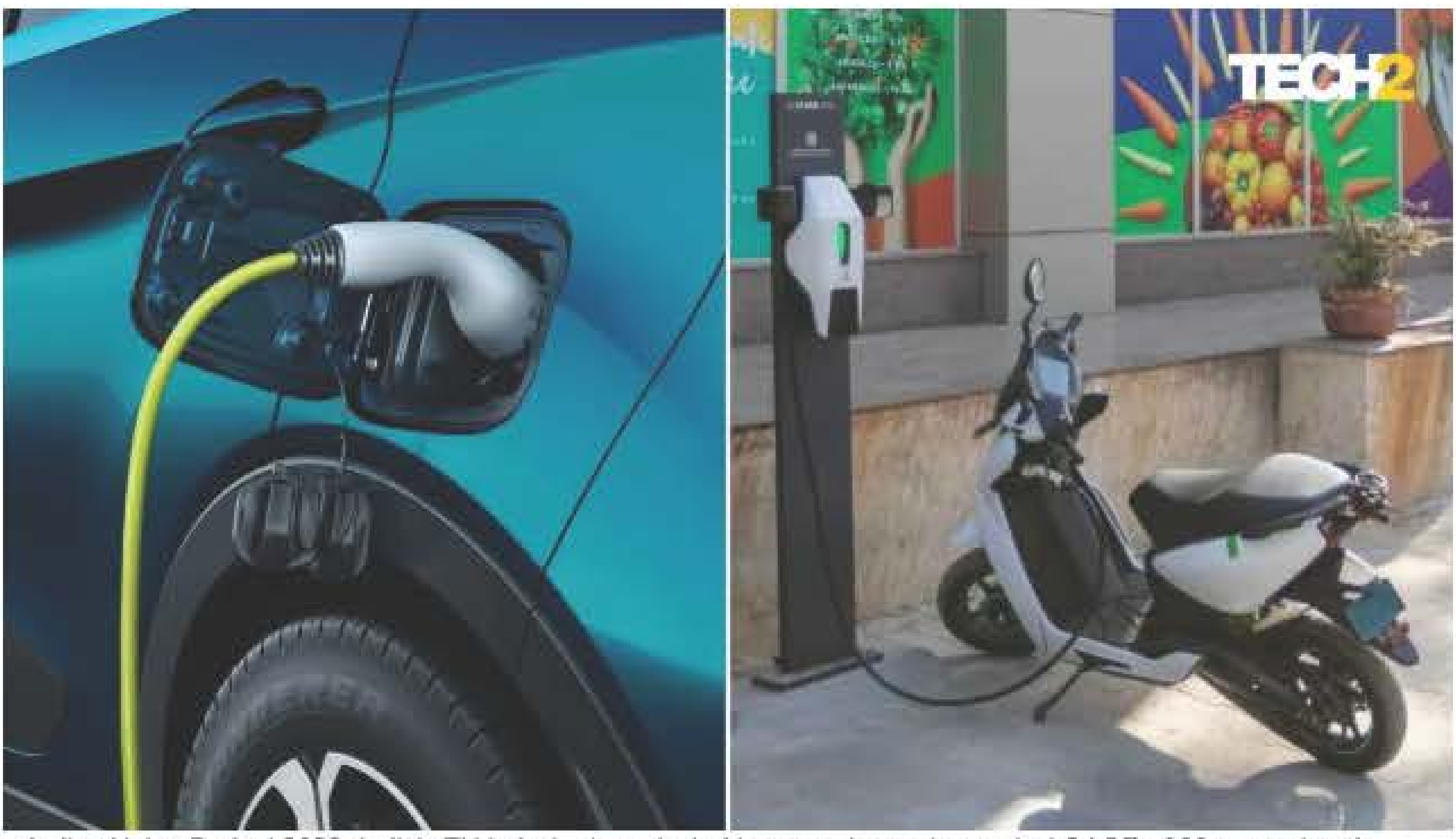

Indian Union Budget 2022: India's EV industry is projected to grow at an astronomical CAGR of 90 percent and touch $150 billion by 2030

The global electric vehicle (EV) industry has significantly evolved over the last decade led by China, followed by other major automobile markets. China leads the group, in terms of the number of EVs and model variants (200+), developed vendor ecosystem, charging infrastructure and battery cell manufacturing capabilities, which has resulted in economies of scale benefits and thereby affordable pricing compared to other markets.

India, however, lags considerably in terms of EV penetration, compared to other larger markets and much still needs to be done as far as the number of models, charging infrastructure, developing vendor ecosystem and providing financial incentives are concerned. The country has a negligible share in EVs, even though we are the largest 2W and 3W market globally and amongst the top five in commercial vehicles (CV) and passenger cars.

That said, the scope for growth is encouraging in the electric two and three-wheeler segment, followed by the electric bus segment due to favourable total cost of ownership (TCO) and huge volumes, which translate into economies of scale benefits. EVs have been slowly gaining acceptance (0.93 million EVs have been registered in India since FY2012), mainly e-3Ws and e-2Ws.

The sales of e-3Ws contracted 20 percent YoY in FY2021 (to 88,378 vehicles) while e-2W and electric cars grew over 60 percent YoY. E-2W registration picked up in 10M FY2022 because of the rising fuel prices and lower ownership cost of e2Ws over ICE. The segment witnessed growth of over four times on a YoY basis, and 149,204 e-2Ws were sold in 10M FY2022. The penetration of e-buses in India is also gradually picking up, with about 400 units sold in FY2021 and approximately 858 units in 10M FY2022.

Keeping this in mind, the Union Budget for 2022-23 has reiterated on promoting electric vehicles, as a means of transportation in the country. In addition to existing financial incentives under the FAME-II scheme (Rs. 10,000 crore) to boost demand and the PLI Schemes for ACC (Rs. 18,100 crore) and auto segment focused on EVs and other alternative energy technologies (Rs. 25,938 crore), the finance minister in the Budget announced plans to implement a battery swapping policy and formalize interoperability standards. Battery swapping is likely to gain acceptability in commercial applications like e2W and e3W and will help faster penetration in these segments, if implemented effectively. Further, this move will also help battery manufacturers to reduce cost through economies of scale.

The finance minister also announced plans to further the push for EV penetration in public transport and create special mobility zones for EVs. This has been implemented in other regions like China and Europe to promote EVs, and will aid in increased EV adoption, in addition to allocations under FAME II scheme. The inclusion of energy storage systems in the harmonised List of Infrastructure will facilitate easier credit availability and cheaper financing availability for the EV segment.

There is also a proposal to reduce customs duty for Nickel Ore and Concentrates from 5 percent to nil, ferro nickel from 15 percent to 2.5 percent, nickel oxide and hydroxide from 10 percent to free. Nickel Manganese Cobalt is a key chemistry used in lithium-ion batteries, which are used in EVs. Given that nickel alloys are primarily imported, the reduction in customs duty will aid indigenous EV battery manufacturers in reducing production costs. Further, motors and controllers are critical EV components with moderate levels of localization currently. Reduction in customs duty from 10 percent to 7.5 percent in motor parts, will help also reduce the cost of EVs.

Overall, the Union Budget 2022-23 has been favourable for the EV space and will favour deeper penetration of green mobility over the medium term.