Don't Just Musk Up

Tesla may be a big brand. But what India's EV sector needs more is nimble govt policy, not a marquee name

Tesla, a marquee brand in electric vehicles, keeps saying it's interested in investing in India. True, if Elon Musk's company firms up its plans to invest here, it will be good for the Indian EV ecosystem. But Tesla is nowhere close to being the most important factor – GoI's next EV policy is. The reason is the unique nature of India's EV market. The year 2022-23 recorded a milestone – more than a million EVs were sold for the first time. But around 95% of them were two and three wheelers. So, EVs in India mimic the internal combustion engine (ICE) market; low-priced segments dominate.

Subsidies to encourage a switch to EVs, particularly Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME-II), provided a boost in the last few years. It also catalysed manufacturing by both traditional auto firms and standalone EVs. As the market grew, the manufacturing ecosystem followed. But to take this forward, we need a stable policy environment, which is currently lacking. For example, FAME-II specifications were recently altered, which is expected to increase a customer's acquisition cost. A jolt like this will adversely impact potential manufacturing investments.

When it comes to manufacturing across the spectrum of EVs, India has the advantage of a sound ICE auto industry. Legacy auto manufacturers in Europe have quickly repurposed factories to make EVs. This provides a good foundation for India. However, the heart of an EV is its battery, which makes up about 40% of its total value. The battery supply chain is dominated by China. IEA estimated that about 75% of the global battery cell production capacity is in China. It's mainly Chinese firms followed by Korean and Japanese companies that control the part of the supply chain dealing with processing of materials.

India may have to look beyond PLIs to get a foothold in the battery supply chain given the larger quantum of resources injected into EV industrial policy elsewhere. For instance, the US recently unveiled large subsidies to encourage EV supply chains. Technology in the battery supply chain is in a fluid state as manufacturers adapt to risks in accessing minerals due to geopolitical reasons. The future of the EV battery supply chain is not set in stone. Case in point is India's potential lithium reserves. Policy needs to be nimble enough to grab opportunities arising out of these shifts.