

Unplugged!

Subsidy ends for ~95% of electric scooters

Manufacturers may need to scramble to conform with stringent FAME-II, unless the government helps out by diluting the norms

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Sudden loss of charge

The Ministry of Heavy Industry and Public Enterprise, through a notification on March 28, 2019, laid out the eligibility criteria for electric buses, passenger vehicles, 3- and 2-wheelers to avail of the 'Faster Adoption and Manufacturing of Hybrid and Electric Vehicles in India', or FAME-II, incentives.

The criteria is based on minimum top speed, minimum range per charge, minimum acceleration and energy consumption efficiency of electric vehicles (EVs). It has also mandated that all EVs except e-rickshaws and e-carts should have regenerative braking capability to be eligible for incentive.

Interestingly, ~90% of the vehicles that availed of incentives under the previous FAME I scheme, which was operational between April 1, 2015, and March 31, 2019, were electric scooters.

Our assessment of the product portfolio of various EV manufacturers indicates that the electric 2-wheeler segment would be impacted the most by FAME-II rules. We believe more than 95% of the electric 2-wheeler models being produced now won't be eligible for incentive under FAME-II.

FAME II subsidies are ten times FAME I

The outlay of Rs 895 crore for FAME-I has been increased ten-fold to Rs 10,000 crore in FAME-II, which will be implemented in 3 years starting April 1, 2019, and will be applicable to vehicles with 'advanced batteries' (excluding lead acid ones).

About 85% of the outlay would be as a demand incentive applicable to buses, passenger vehicles and 3-wheelers registered for commercial usage and public transport, along with privately owned 2-wheelers.

Incentives for lead acid battery-based scooters discontinued

Under FAME-I, incentive was provided to all battery powered vehicles including those that run on lead acid batteries. Up until September 2018, ~90% of the beneficiaries under FAME-I were lead acid powered electric scooters.

Such electric scooters were priced below Rs 50,000 (after including the FAME-I incentive of ~Rs 9,000), while lithium-ion battery-driven scooters, which costs ~Rs 70,000 after incentive, and many internal combustion engine scooters are more expensive. Because of their lower upfront cost, detachable batteries (limiting need for public charging infrastructure) and inherent cost benefits of EVs led to a pick-up in e-scooter sales to ~55,000 units in fiscal 2018, according to Society of Manufacturers of Electric Vehicles (SMEV) data.

However, from October 2018, demand incentive to lead acid battery-based vehicles was discontinued under FAME-I, which comes as a big blow to electric scooter sales.

Stringent eligibility criteria under FAME-II catches OEMs off-guard

FAME-II continues to exclude lead acid battery-powered 2-wheelers. Additionally, as per the latest eligibility criteria, e-scooters ought to have a minimum range of 80 km per charge and minimum top speed of 40 kmph, along with riders on energy consumption efficiency, minimum acceleration and higher number of charging cycles. This precludes more than 90% of the remaining lithium ion battery-driven models from the subsidy.

EV makers have been caught off-guard by the stringent eligibility criteria leaving them no time to conform. They are expected to increase the battery size of their offerings for higher range and speed, improve battery technology for more charging cycles and also install electric regenerative braking technology in their 2-wheelers in order to be eligible for the incentives.

Moreover, the requirement of 50% localisation in manufacturing is also expected to be a hurdle for many OEMs. And going ahead, upgradation of products and localisation would increase the costs for e-scooters, which could hurt demand.

EV makers are expected to take time to come up with new models eligible for FAME-II demand incentive along with the necessary level of localisation. It would happen only after they make changes in production and exhaust inventory of vehicles that are not eligible for subsidy.

Incentive for 2-wheelers reduced

Earlier, the incentive for lithium ion battery-based 2-wheelers stood at Rs 17,000 or Rs 22,000, based on the fuel savings potential and irrespective of the size of the battery.

FAME-II has linked the demand incentive to the size of the battery, with the government providing Rs 10,000 per kWh of battery used for a 2-wheeler. As the average size of a lithium ion battery in electric scooters sold during FAME-I was ~1.5kWh (average subsidy of Rs~15,000 per vehicle), it reduced the average subsidy per vehicle by Rs 2,000 to Rs 7,000.

Conclusion

Clearly, the e-scooter industry would see turbulence in the initial phase of the FAME-II.

In the near term, liquidating inventory would necessitate higher discounts to offset the lack of subsidy.

EV makers would then concentrate on localisation and building supply chains alongside product development to come up with new models. They have also requested the government to re-consider the stringent norms.

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