PRESS RELEASE
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Electric Mobility Promotion Scheme 2024 - A timely move to keep the electrification pace intact: ICRA

- ***ICRA expects the penetration levels of e-2w and e-3w (excluding e-rickshaws) to reach 6-8% and 14-16% respectively in FY2025***

Rating Agency ICRA opined that the announcement by the Government of India of the Electric Mobility Promotion Scheme 2024 is a timely move to support the adoption of electric vehicles in the country, with the FAME-II subsidy expected to see a sunset on March 31, 2024. However, the scheme entails a reduction in the quantum of subsidy being offered on a per vehicle basis vis-à-vis the existing FAME-II guidelines. As per ICRA's calculations, the initial purchase cost of an e-2W would increase by close to 10% compared to that with the FAME-II subsidy. Moreover, this would make the initial purchase cost of an e-2W by over 70% costlier compared to a petrol scooter. Though the reduction in subsidy benefits is a short-term impediment for e2W manufacturers and could exert pressure on cost structures, if price hikes are not completely passed on, the pick-up in volumes is expected to partially mitigate the impact. Nevertheless, their ability to ensure timely fund raise to support the capital structure or competitiveness of manufacturers would be the key.

On March 13, 2024, the Ministry of Heavy Industries, Government of India announced the Electric Mobility Promotion Scheme 2024 with a total outlay of Rs. 500 crore to support the adoption of e-2Ws and e-3Ws (including e-rickshaws, e-carts, and L5 category vehicles) for a period of four months from 1st April 2024 to 31st July 2024. Around two-thirds of the outlay is proposed to be earmarked for e-2Ws. As per the scheme, the subsidy for e-2Ws has been reduced to Rs. 5,000/KwH from Rs. 10,000/KwH earlier with a cap of Rs. 10,000 per vehicle for e-2W (from 15% of ex-showroom price earlier), Rs. 25,000 for e-rickshaw/ e-cart and Rs. 50,000 for L5 category e-3Ws, respectively.

Giving more details, Mr. Shamsher Dewan, Senior Vice President and Group Head – Corporate Ratings, ICRA, says, "*The Government's announcement to offer incentives under a new scheme for e-2Ws and e-3Ws will continue to provide a disruption-free environment for e-2W OEMs just before the FAME-II scheme was about to end. Although the reduction in the subsidy benefit is a short-term impediment and may impact demand to some extent, OEMs will continue to strive to offer competitive products by leveraging their cost structure through localization of key components and value engineering capabilities. In addition, softening in battery cell prices (which accounts for almost 40% of vehicle cost) will also help them offset the impact of lower subsidies to some extent."*

"*In ICRA's estimates, the payback period could get elongated to 5.5 years vis-à-vis five years (under the FAME-II framework), in a scenario wherein the e-2W manufacturers were to completely pass on the subsidy reduction amount to the consumers in the form of price hikes. However, the long-term potential for e-2W segment remains favourable aided by a) improving cost of ownership vis-à-vis ICE vehicles and b) enhanced customer confidence with regard to range anxiety, financing avenues, and other vehicle attributes such as safety. In addition, the Government's focus on promoting electric vehicles through various initiatives (including PLI) will continue to drive electric vehicle adoption over the medium term. ICRA expects penetration of e-2Ws to inch to 6-8% in the overall industry by FY2025 as compared to approximately 5% at present.*", added **Mr. Dewan.**

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