Building Bridges in a Global EV Supply Chain: India's New EV Policy

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In March 2024, the Indian government approved a new electric vehicle (EV) policy for global EV makers in India. The policy has the potential to impact the country's manufacturing outlook significantly. The new EV policy seeks to reduce the initial entry barriers for potential EV carmakers with a reduction in custom duty from the current range of 70% to 100% to 15 % on imported EVs, depending on their value. In recent years, Indian policymakers have been actively pursuing new reforms.

The Prime Minister's Office, led by Narendra Modi, has played a central role in streamlining India's policymaking, enhancing India's manufacturing competitiveness, stabilizing the supply chain, and meeting global challenges while boosting confidence in domestic and international businesses. The Indian government is committed to a sustainable future. It has taken the initiative to promote the manufacturing and adoption of cleaner technologies and develop a sustainable ecosystem within the country. Various new schemes and programs support these efforts. This report explores how India can strengthen its position in the global supply chain while opening its market to global carmakers in the long term.

Key highlights of the new EV policy

- Original equipment manufacturers can import completely built-up (CBU) units of electric 4-wheelers at a customs duty rate of 15%. However, this is subject to compliance with the conditions outlined in the scheme.
- Approved OEMs will have to establish manufacturing facilities in India for production, with a minimum investment of $500 million.
- The manufacturing facility must be in operation within three years from the date of the government's approval letter.
- The facility must achieve a minimum domestic value added (DVA) of 25% in three years and 50% within five years.
- As per the scheme, importing EV passenger cars comes with a minimum cost, insurance, and freight (CIF) of $35,000 at a duty rate of 15% for five years. There is a cap on the maximum number of EVs imported at the reduced duty of 8,000 units annually.
- The maximum number of duties foregone by each OEM will be limited to $790 million.
- A bank guarantee from a scheduled commercial bank in India is required to ensure OEMs' commitment to setting up manufacturing facilities and achieving the DVA. The bank guarantee should be equivalent to the total duty foregone or $790 million, whichever amount is higher, during the scheme period.

Eligibility

To qualify for benefits under the scheme, the applicant company or OEM must meet the following criteria:

Eligibility criteria	Auto OEM
Global group* revenue (from automotive manufacturing), based on the latest audited annual financial statements at the time of application	Minimum $1.22 billion
Investment, based on the latest audited annual financial statements at the time of application	Global investment of the company or its group company(ies) in fixed assets (gross block) of $370 million
Minimum investment commitment in India during a three-year window	$500 million
Maximum investment commitment in India during a three-year window	No limit
DVA criteria during manufacturing	25% to be achieved within three years and 50% to be achieved within five years from the date of issuance of the approval letter by the government

* Group Company(ies) shall mean two or more enterprises, which directly or indirectly, are in a position to exercise 26% or more of voting rights in the other enterprise.
* New investments should be made by the approved applicant only.
* Cumulative new domestic investment made, starting from the application approval date, shall be considered under this condition.

India's performance in the last ten years and the next ten years

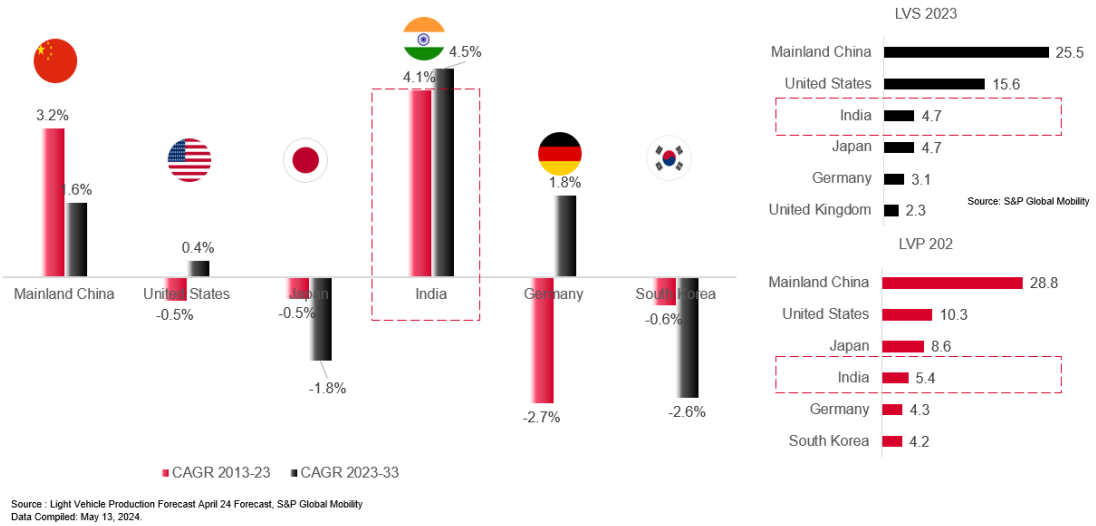
India is poised to become the world's third-largest economy by the end of this decade. Despite the recent global challenges impacting economies, including the COVID-19 pandemic, semiconductor shortage, geopolitical tensions with its neighbors, and the impact of the Russia-Ukraine crisis, India has demonstrated remarkable stability in its economy and supply chain compared to other countries.

In the light vehicle production market, India has outperformed the top-five global light-vehicle production markets over the last decade (calendar years 2013–23), with a compound annual growth rate (CAGR) of 4.1%. The Indian light vehicle production market, which accounted for 3.65 million units in 2013, increased to 5.44 million units in 2023, making India the fourth-largest market in 2023. Meanwhile, the light vehicle sales market accounted for 4.72 million units in 2023, making India the third-largest market in 2022, surpassing Japan.

India has successfully navigated the recent years of disruption in the automotive industry. Supplies of semiconductor chips were quickly secured, while producers in other regions found it more challenging to adapt to the shortage. India's low reliance on mainland China has supported growth in production since 2020. A stable, growing domestic marketplace is also increasingly attractive to automakers looking to establish low-cost export hubs to serve overseas markets. This topic has been visited in the past but now appears more realistic with a stable supply chain and when the world is looking beyond Mainland China.

The upward trajectory in growth is expected to continue over the next decade. The stability in governance has reignited the investment cycle in India's auto industry. Each day, there is a rise in confidence among carmakers and suppliers regarding capacity expansion. According to S&P Global Mobility estimates, India is expected to achieve a CAGR of 4.5% in the next decade and reach 8.5 million units by 2033. The contribution of Indian light-vehicle production to the global market is projected to increase from 6.0% to 8.4%% by 2033.

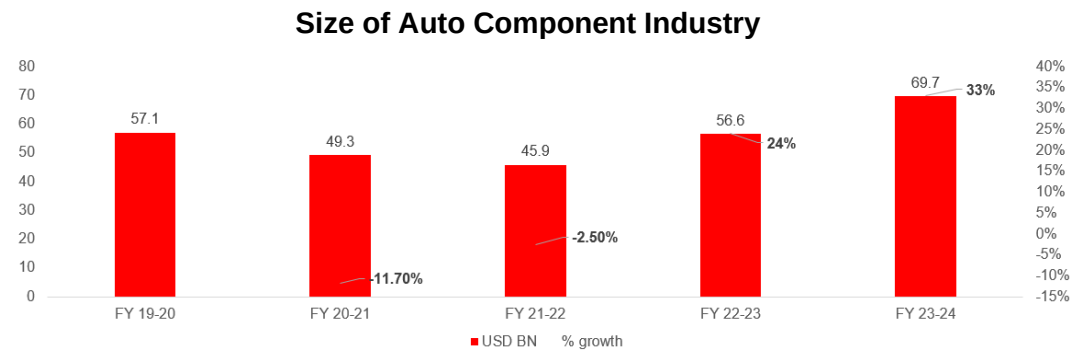
In addition to the increased domestic market, according to the S&P Global Mobility forecast, India is expected to add new export destinations and vehicles. Multiple carmakers are either finalizing their export strategies or have already committed to export orders. Carmakers such as Toyota and Suzuki are expected to use India as a production hub for their new EV strategy.



Source : Light Vehicle Production Forecast April 24 Forecast, S&P Global Mobility
Data Compiled: May 13, 2024.

Large auto supplier base

India is currently ranked the world's third-largest automobile market and one of the fastest-growing markets. The current market size of the Indian automotive sector is $151 billion, which will likely double to $300 billion by 2030. The industry contributes over 7.1% to the country's GDP. Additionally, the automotive component industry is a crucial pillar of India's manufacturing sector, reaching $69.7 billion in fiscal year 2022–23, a remarkable growth rate of 33% year over year. The industry is known for its robust and dynamic nature, which has witnessed significant expansion over the past few years. The sector encompasses various products, including engine components, drive transmission, body and chassis, suspension and braking parts, and electrical components. Out of the total revenue of $69.7 billion, $59.3 billion was generated by domestic OEMs, while exports accounted for $20.1 billion. Imports accounted for $20.3 billion, and the domestic aftersales market contributed $10.6 billion. In the first half of fiscal year 2023, the auto component supplier industry grew 12.6%, generating $29.8 billion in revenue compared with $26.5 billion during the same period in fiscal year 2022.



Source: ACMA

India's component industry: Automotive Component Manufacturers Association (ACMA)

India has one of the lowest vehicle ownership rates in the world, with only 38 vehicles per 1,000 people in 2023. The low penetration levels, an expected surge in car demand, rising income levels, and evolving lifestyle preferences are expected to boost car sales and, consequently, the component industry in India. The industry's growth can also be attributed to the country's frugal manufacturing cost structures, which provide greater profitability, and the growing exports of vehicles and components from India. In recent years, India has provided global and local suppliers with an excellent base to scale, as most global suppliers already have a base in India. The auto component industry faces challenges, particularly transitioning from internal combustion engine (ICE) vehicles to EVs. India lacks the necessary technology for this transition, so auto

suppliers must innovate and develop new EV components. Furthermore, the industry must keep up with the rapid technological advancements by collaborating with global technological partners.

Due to a significant rise in national security concerns among countries, the narrative of global sourcing patterns is expected to shift. Supply chain stability requires urgent attention, and India has a role. The Indian government recognizes the opportunity for global sourcing during the transition phase. It actively promotes local manufacturing, develops the local EV ecosystem, and adopts investor-friendly behavior for global carmakers. India has implemented various initiatives to foster the growth of the EV industry. These initiatives encompass Faster Adoption and Manufacturing of Electric Vehicles (FAME) and multiple industry-specific Production Linked Incentive (PLI) schemes.

Government initiatives

PLI Scheme for Advanced Chemistry Cell (PLI-ACC): This scheme has a budget of $2.5 billion; it is designed to incentivize manufacturers of advanced chemistry cells. The scheme aims to strengthen the EVs and battery storage ecosystem in India. Its primary objective is establishing a local manufacturing capacity of 50 GWh, with 30 GWh already being subscribed. Ola Electric Mobility Pvt. Ltd. secured 20 GWh, while Reliance New Energy Solar Ltd. and Rajesh Exports Ltd. each secured 5 GWh.

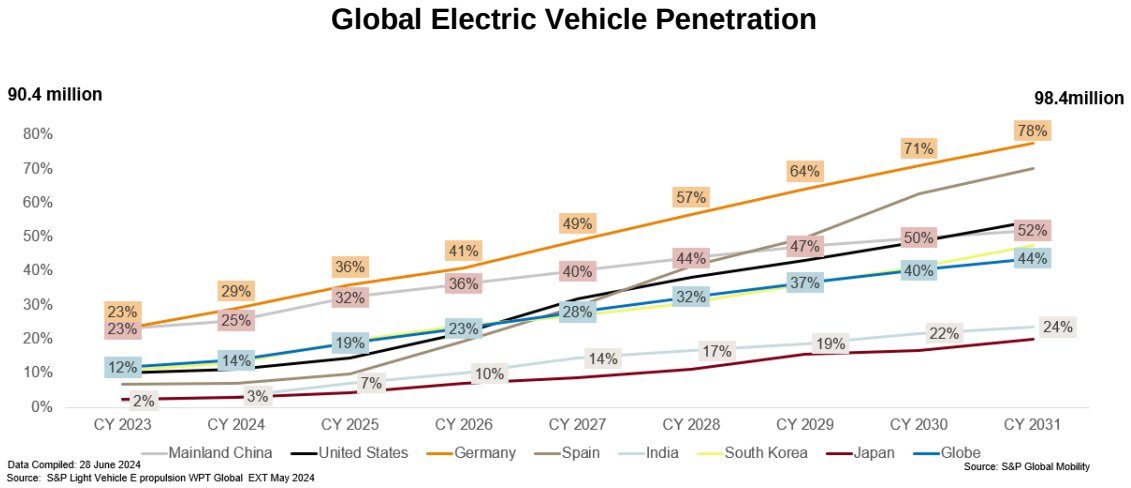
PLI Scheme for Automobile and Automotive Components (PLI-Auto): This scheme was launched in 2021 and has a budget of $3.1 billion for financial incentives. The scheme aims to promote domestic manufacturing and attract investments in the automotive manufacturing industry's value chain. In February 2022, 20 applicants were approved under the Champion OEM Scheme, including the following OEMs for the 4-wheeler category: Ashok Leyland, Maruti Suzuki, Hyundai-Kia India, Mahindra, Tata, Suzuki (SMG), Eicher and PCA Automobiles. Non-OEMs such as Ola Electric and Axis Clean Mobility and 75 applicants for Component champions had also received such approval. Global suppliers such as Bosch, BASF, Mahle, Mando, Mitsubishi Electric Schaeffler, Valeo, Vitesco, Wabko, and Yazaki were among the players.

FAME: The first scheme was introduced in 2015. In 2019, phase two of FAME was launched, with a budget of $1.4 billion. The scheme offers upfront subsidies to buyers of EVs to lower their initial acquisition costs. However, this scheme does not provide direct benefits to private car buyers. The total number of EVs sold in India under the FAME policy is 1,655,302 units, of which only 23,244 are electric 4-wheelers.

State policies: More than 22 states and union territories in India have implemented dedicated EV policies. These policies are designed to encourage the adoption of EVs in India by providing incentives through a range of fiscal and non-fiscal measures. These incentives include subsidies, tax concessions or waivers, and the development of EV infrastructure.

Projections

EV outlook in India: With the implementation of multiple schemes in India, S&P Global Mobility estimates suggest that India's penetration levels for EV production will increase from 2% in 2023 to 24% in 2031. Global penetration will increase from 12% in 2023 to 44% in 2031. With the PLI scheme already in place, OEMs in India are actively developing EVs for the domestic and export markets. Production of electric light vehicles is forecasted to significantly increase, up from 105,000 units in 2023 to 1.8 million units by 2031.



Rising exports post PLI: After implementing PLI schemes, estimated export volumes from India will increase. Global carmakers that applied for PLI schemes started developing the strategy to shift their exports to India for frugal cost structures and to benefit from the available schemes.

Several carmakers and suppliers that initially missed the PLI schemes later expressed interest in joining. Nevertheless, the slow start of EV penetration in the market made new entrants cautious and inclined to test the waters before committing to substantial investments in the domestic market. Investing in EVs is a capital-intensive business. EV carmakers hesitated to risk their investment in a country where most consumers are value-conscious and the average selling price remains below $15,000. This scenario prompted the Indian government to develop a new EV policy for new players or entrants.

Global need for partners in the new supply chain

With increasing security concerns and the need for a solution to rising tariff wars, countries seek a reliable and frugal partner to relocate their global supply chains among emerging Southeast Asian markets. However, stability will remain a concern in these small countries. Global supply chain development and execution require time to mature, and the inherent risk in transition due to disruptions in supply chains is real. Here, India, a member of G20, offers a favorable option for a global supply chain.

Adopting cleaner technologies for mobility is inevitable, and global competition is emerging to secure the necessary technology and critical materials to produce EV batteries and components. Mainland China's manufacturing advantage in the EV ecosystem is undeniable, and the territory is prepared to enter the global EV market with its strength. Global strategists know this and actively participate in discussions at various forums. Therefore, global carmakers are actively seeking a global supply chain base that has the potential to address these concerns.

India, the fourth-largest automotive production market, offers solutions to many questions global planners and strategists pose. At the same time, the Indian government must not overlook this international opportunity. Establishing a sustainable EV ecosystem is crucial. India urgently requires technology advancements, and the lack of investment in research and development by Indian suppliers and carmakers poses a significant obstacle to adopting the latest technology and lowering cost structures.

The new EV policy aims to attract investments from global EV manufacturers and position India as a preferred manufacturing destination for EVs. The new policy will help put India on the international map for manufacturing EVs, generating employment, and achieving the Make in India goal. The new EV policy, which initially aims to reduce import duties to facilitate global carmakers, may appear to contradict the vision of Make in India. However, the policy is intended to boost local manufacturing in the country and provide a solution for global planners.

Impact of the new EV policy

Introducing the new EV policy has effectively decreased entry barriers for the Indian car market. In the long run, the policy encourages local domestic production rather than only reducing customs duty. The new EV policy seeks to open the Indian automotive market to new carmakers, suppliers, technologies, and an overall ecosystem. This development has the potential to benefit the Indian economy, as several carmakers that were previously hesitant may now express interest in entering the Indian market. The government has also smartly maintained the option to withdraw subsidies if manufacturers fail to meet the minimum criteria.

Additionally, it promotes the development of the EV ecosystem in India. Tata and Mahindra are planning for higher EV penetration levels by 2030. Tata has set a clear target of achieving a 30% EV penetration rate by 2030. Meanwhile, Suzuki-Toyota is working to use India as an export hub for EVs. However, some domestic carmakers cannot bear the burden of developing a complete EV ecosystem. The new EV policy will assist new and existing carmakers lower the cost structure of EV technology in the medium-to-long term, offering Indian consumers global technologies and products on Indian roads.

In the past few years, global carmakers have been growing interested in entering the Indian market, including Tesla, Foxconn, BYD, Ford (reentry), Great Wall, Geely, Changan, Leap Motor, VinFast, and other new EV companies. These companies are not the only ones showing interest; global suppliers have also started working with Indian suppliers to provide ecosystem support to new entrants or existing carmakers, such as Tata-JLR, Mahindra, Hyundai, Maruti, and Toyota. The lack of technology has been a significant hurdle in the Indian EV market. Though the policy is expected to address and resolve multiple issues, India has yet to secure direct investments from Mainland Chinese carmakers due to geopolitical challenges.

India does not have a mature EV ecosystem and needs support from global players, including Mainland Chinese carmakers. The recent joint venture between JSW (an Indian steel conglomerate) and MG Motor (owned by SAIC) has presented a solution. It seems that Indian authorities have also demonstrated flexibility while safeguarding their interests. JSW has acquired a 35% equity stake in MG Motors. The other 16% is

owned by Indian institutes, employees, and dealers. As a result, Mainland Chinese-owned MG Motor holds a minority stake of 49%.

Multiple carmakers, suppliers, and technology partners can adopt this strategy by selecting an Indian partner to mitigate investment risks in India. Similarly, global companies that have formed strategic alliances with Mainland Chinese carmakers and suppliers can also introduce their products and platforms to the Indian market.

For instance, Stellantis, which has formed a strategic alliance with Leap Motor, can start by initially revamping its product portfolio in India with EVs and then develop an export strategy. Similarly, companies such as BYD, collaborating with Megha Engineering, can reapply for an investment under the new policy. VinFast, which has already announced a $500-million investment in India, will establish a manufacturing plant with a capacity of 50,000 units in Tamil Nadu, India.

Conclusion and future adjustments

By introducing the new EV policy and reducing import duty to 15% on vehicles above $35,000, India has reduced the entry barriers for the Indian market. The new EV policy aims to open its market to global carmakers, with a DVA target of 50% within five years. If carmakers fail to invest $500 million and achieve the DVA target, India reserves the right to withdraw the reduced duty. In the long term, the EV policy aims to position India as a critical player in the global supply chain.

India should learn how Mainland China began by taking on small assembly tasks from mature markets three decades ago. India has a large base of suppliers looking to contribute to the global supply chain. It also offers opportunities for partnerships and collaborations between Indian and international companies and will support the development of a complete, sustainable ecosystem. The policy also allows global carmakers to create a production base in the third-largest automotive industry market while strategizing their exports with cost-effective structures as an alternative to Mainland China.

The actual impact of the policy can be assessed after formal announcements by car makers. If the policy can attract global players such as Tesla, Ford, and JLR, it can impact the above forecast. However, we may need to wait and see how many carmakers apply for the scheme in the next few months.

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