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GOVERNMENT ROLLS OUT A RED CARPET TO GLOBAL E-4W MANUFACTURERS: 'MAKE IN INDIA' THROUGH THE NEW EV MANUFACTURING SCHEME

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Introduction

The Ministry of Heavy Industries (MHI) notified a new scheme, 'Scheme to Promote Manufacturing of Electric Passenger Cars in India' (Scheme) on 15 March 2024 that incentivizes global original equipment manufacturers (OEMs) to 'make in India' electric 4-wheeler vehicles (e-4W) and access the third largest auto market.

The Scheme builds on existing policies intended to promote growth of electric vehicle (EV) market in India, such as the product linked incentive (PLI) schemes for automobiles and automotive components and advanced chemistry cell, the consumer subsidies under scheme for 'Faster Adoption and Manufacturing of Electric Vehicles' (FAME) in India and state specific policies.

Who can avail the benefit?

The eligibility criteria are built on three pillars: (i) minimum global revenue requirements (as a stand in for credibility), (ii) minimum investment requirements, and (iii) minimum domestic value addition (DVA). The first application window under the Scheme is open for a period of 120 days from the date of notification of the Scheme, 15 March 2024.

a. **Revenue criteria:** An applicant should be (i) a company / has a group entity incorporated in India that is engaged in automotive and/or manufacturing; and (ii) whose 'global group revenues' from automotive manufacturing in a year are at least INR 10,000 crore (~USD 1.2 billion) with global investment in fixed assets of INR 3,000 crore (~USD 361 million).
b. **Minimum commitment**: The applicant must commit to a minimum investment in India for 'manufacturing facilities' during a three-year period of INR 4,150 crore (~USD 500 million). The minimum commitment has to be backed by a bank guarantee, which will be invoked upon a failure to achieve the minimum investment and DVA criteria. Permitted investments include expenditure on plant, machinery, charging infrastructure/equipment, equipment and associated utilities (including building and utilities up to certain limits, captive power and effluent treatment plans). Key exclusions include expenditure on 'land' (owned or leased) and second-hand plants and machinery.
c. **DVA:** Similar to the requirements under the PLI scheme for automobile and auto components, the Scheme mandates a minimum DVA. Initially, the DVA to be achieved will be 25% within three years, which should be scaled to 50% within five years.

Incentives under the Scheme:

a. **Lower customs duty for certain cost-insurance-freight (CIF) value:** The applicant is allowed to import completely built-in units (CBUs) of e-4W with a minimum CIF value of ~INR 29 lakhs (USD 35,000) manufactured by them at a reduced customs duty of 15% for five years; and

b. **Limit on imports:** The maximum permitted number of e-4Ws to be imported at the concessional duty rate is capped at 8,000 per annum or 40,000 over the five-year period. Unutilized import limits can be carried over during the five-year period. However, the maximum number of e-4Ws that can be imported will be limited to the lower of: (i) duty foregone per applicant capped at INR 6,484 crore (~USD 781 million), and (ii) the investment committed by the applicant. Illustratively, if the investment committed is INR 6,484 crore (~USD 781 million) and the CIF value of each vehicle is ~INR 29 lakhs (USD 35,000), the maximum number of vehicles that can be imported will be 40,582.

Potential implications and impact

a The Scheme is aimed at easing the entry for global 4W EV OEMs like Tesla, Rivian, Lucid and VinFast. These EV OEMs have flirted with the idea of commencing operations in India but were deterred by high import duties (70%-100% of CIF value of CBUs) that put their mass market EVs at a significant cost disadvantage compared to locally manufactured ones.

b The Scheme provides a buffer of three years for new global manufacturers to test Indian consumer appetites through the sale of imported EVs, with the end intent of gradually localizing and scaling up EV component sourcing within India to meet DVA requirements. This should help each entity to strategize its capital allocation for India efficiently while not materially prejudicing existing global manufacturers and domestic players.

c The 25% DVA requirement, which will be measured at the three-year mark, offers a more palatable target for global OEMs in contrast with the similarly intended 30% mandatory local sourcing requirement for FDI in retail trading. The local sourcing requirement has ended up being a significant deterrent for many global retailers in investing meaningfully in India. Global OEMs can use (i) the three-year period to establish synergies with local automotive component manufacturers and suppliers, and (ii) the five-year period (for the 50% DVA requirement) to develop a local value chain and ecosystem for EVs and related components that are still reliant on imports.

d While the Scheme does not prohibit any existing global OEMs who are already in India from making an application, it could potentially nudge a few players to consider committing to fresh investments of ~USD 500 million in EV manufacturing and charging infrastructure.

e Although the FAME incentives may have served their purpose with the Government looking to not extend the incentives, the Scheme should help accelerate the EV push by allowing many global players to mark their India entry. This comes at a right time when the 'China plus one strategy' and 'increased scrutiny of Chinese entities/technology' are forcing global OEMs to spread their manufacturing bases. The incumbent players in this sector have successfully demonstrated that e-4Ws can be built in India with locally sourced components. The year-on-year data and trends prove that robust demand exists for e-4Ws, with demand only expected to surge in the near future.

f Unlike the PLI scheme, which has given a major boost to manufacturing in many sectors, including EV, the Scheme remains in its infancy. It is unclear if it will achieve the intended purpose of turning India into a global EV manufacturing hub. Potential teething issues such as ambiguity or differences in the calculation of DVA (currently being deliberated for the PLI scheme) should be ironed out to help set transparent criteria for global OEMs. Further, the minimum CIF value of USD 35,000 for an imported e-4W may limit the EVs sold by global OEMs (at least until their local production takes off) to high-end or luxury e-4Ws. This is arguably an intentional prescription by the Government in an attempt to continue to prioritise the mass market e-4Ws market for local and existing global OEMs to achieve economies of scale before they have to face competition from new global players.

- *Sharad Moudgal (Partner); Ashraya Rao (Partner) and Srikanth Mantravadi (Principal Associate)*

For any queries please contact: editors@khaitanco.com

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