

Auto firms may have to shell out Rs 3.5 lakh cr capex to realise govt's EV Vision 2030: BWA

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This amount is significant as OEMs currently have a capex of around Rs 25,000 to Rs 30,000 crore per year in terms of enhancing their capacity for model launches and upgradation of existing models, said Brickworks Analytics (BWA) research.

Original equipment manufacturers (OEMs) will have to incur capex to the tune of Rs 3.5 lakh crore, exclusively for electric vehicles (EVs), in the next five to seven years to meet the government's vision of EVs constituting 30% vehicles on road in India by 2030.

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OEMs will have to incur additional capex of Rs 30,000 crore per year for EV capacity creation. It seems unlikely that OEMs will be able to incur such significant capex as the business environment has been badly hit due to the pandemic. Vehicle sales were already at their decadal low when the pandemic hit, and the sector is one of the worst hit during the pandemic as well, BWA said.

Cash accruals of OEMs were badly impacted during FY20 and FY21, and will take more time to return to pre-Covid levels. These two years of continuous slowdown and the subsequent capex already incurred to meet the BSVI emission norms will restrict OEMs from committing significant capex towards capacity creation for EVs and meeting the government's vision of EVs constituting 30% of overall vehicles on road in India by 2030, it said.

However, BWA expects larger OEMs to take the inorganic growth path and acquire smaller but specialised players in the EV space, especially in the relatively lower value two-wheeler space.

Two-wheelers are the largest segment in the Indian automotive industry, representing 80% of Indian automotive sales. Owing to the vastness of this segment, it has a huge potential to promote emission-free mobility in the country. Two-wheelers are expected to be one of the early adopters of electrification. High vehicle utilisation and easy home or workplace charging would drive the uptake in the two-wheeler segment, it said.

In addition to the policies, tax incentives and subsidies offered by the government to encourage EVs, there is a need for upfront weighted deduction on capital expenditure, which can help OEMs plough back more capital into expansion and technology upgrades, BWA said. The allocation of funds (capital outlay) in Union Budget 2020-21 was negligible at ₹700 crore and hence, much more support is expected from the government.

The Union government needs to come up with a scheme similar to the technology upgradation fund scheme (TUFS) in the textile sector, to help OEMs upgrade towards EV technology.

The amended TUFS envisages interest reimbursement on the loans taken for technology upgradation and provides one-time capital investment subsidy of 10 to 15% on eligible machines for different segments with a subsidy cap. Such a subsidy if proposed for the automobile sector will take away some burden from the OEMs and help them achieve the EV vision, BWA said.