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Auto OEMs need to invest Rs 3.5-lakh cr by way of capex to realise 2030 EV goals

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But it will be a tough ask for the industry hit by the pandemic, says Brickwork report

Automobile companies in the country will have to incur capex to the tune of Rs3.5-lakh crore, exclusively for electric vehicles (EVs), in the next five to seven years to meet the government's vision of EVs constituting 30 per cent vehicles on road in India by 2030, according to a report of Brickwork Analytics.

This amount is significant as OEMs currently have a capex of about Rs25,000-30,000 crore per year for enhancing their capacity for model launches and upgrading existing models. Hence, apart from their regular capex, OEMs will have to incur additional capex to the tune of Rs30,000 crore per year on EVs' capacity creation, it said.

Pandemic impact

However, it seems unlikely that OEMs will be able to incur such significant capex as the business environment has been badly hit by the pandemic.

Apart from multiple factors such as price, charging infrastructure, mass acceptability and evolving technology, setting-up manufacturing units is a significant requirement for the EV market. In line with the rising customer demand for EVs in FY20, many auto manufacturing companies have increased their capex to widen the scope of EV businesses. However, the current crisis situation might lead them to rethink.

Vehicle sales were badly hit by the pandemic. Hence, the cash accruals of OEMs were affected and will take time to return to pre-Covid levels.

These two years of continuous slowdown and the subsequent capex already incurred to meet the BS-VI emission norms will restrict OEMs from committing significant capex towards capacity creation for EVs and meeting the government's vision of EVs constituting 30 per cent of overall vehicles on road in India by 2030. However, larger OEMs are expected 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.

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. The allocation of funds (capital outlay) in Budget 2020-21 was negligible at about Rs700 crore and, hence, more support is expected from the government, said the report.
TUFS-like scheme for EVs

The Centre 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 10-15 per cent 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.