



Electric Vehicles – Emerging Indian Paradigm

India has joined several progressive governments in providing a clear impetus to the development of the Electric Vehicles (EV) industry. The government is aiming to make India a global hub of EV manufacturing and has introduced the second phase of Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME 2) scheme, in order to reduce pollution and contain oil imports. While no target has been set for automakers to mandatorily convert part of existing vehicle production to electric or other electrified offerings, the Indian government has mooted a policy to ban all internal combustion engine fired vehicles – all 2-wheelers under 150cc by 2025 and all 3-wheelers by 2023. It's mission to drive the e-mobility revolution by 2030 should provide the much-needed impetus to the industry.

In the latest budget speech (5 July 2019), the Indian Finance Minister announced a slew of policy measures aimed at liberalising foreign participation and incentivising consumers towards faster adoption of EVs.

Thrust on overall development

The government realises that the transformation towards clean and green mobility is likely to be catalysed by encouraging adoption of state-of-art global technology and infrastructure in EV manufacturing and vehicle charging stations. The proposed policy also aims to incentivise investment in battery cell manufacturing and assembly capacity.

Attracting global companies

The government is proposing a new scheme which will invite global companies to invest in manufacturing plants for sunrise and advanced technology areas like solar photo voltaic cells, lithium storage batteries and solar electric charging infrastructure. Such investments in manufacturing plants will entail income-tax exemptions.

Liberalising FDI conditions	Although the current FDI regulations permit 100% FDI in Single Brand Retailing under the automatic route, foreign players interest has remained tepid due to the onerous stipulation on 30% local sourcing. In a welcome move, the Finance Minister announced that the government will revisit and ease the local sourcing norms.
Income Tax incentives	A new section is being introduced to provide deduction of upto INR 150,000 on loan interest in relation to purchase of EVs. The incentive will be available for new vehicle loans sanctioned between 1 April 2019 and 31 March 2023.
GST rationalisation	The rate of Good and Services Tax ("GST") on advanced battery and registered EVs is proposed to be reduced from 12% to 5% to promote the sale of EVs.
Customs Duty exemptions	As a further boost for Indian manufacturers of EV, basic customs duty will be completely exempted on certain parts such as e-drive assembly, on board charger, e-compressor and charging gun. However, the rate of IGST as part of customs duty will remain unchanged. It would be critical for the GST rates on these products to eventually be aligned to 5%.
Other considerations	<p>The push through FAME 2 is a first step and there are several other areas of the initiative which the government needs to address:</p> <ol style="list-style-type: none"> Determination of whether electricity consumption at charging stations would be subject to GST or electricity duty; Regulatory control over charging technology standards – whether these would be proprietary or industry standards; Treatment of self-driving technologies under the provisions the Motor Vehicles Act; Tax and regulatory treatment and financing models to keep cost of ownership competitive in comparison to traditional vehicles; and Evolution of an appropriate regulatory regime to support disposal of batteries.

For further information regarding this publication, please do not hesitate to contact Rabindra Jhunjhunwala at rabindra.jhunjhunwala@khaitanco.com.

This document provides some basic information pertaining to the issues and should not be construed as a legal opinion or legal advice. It may neither be relied upon by any person for any purpose, nor is it to be quoted or referred to in any public document or shown to, or filed with any government authority, agency or other official body. This document is updated as on 9 July 2019.

Bengaluru
Simal, 2nd Floor
7/1 Ulsoor Road
Bengaluru 560 042, India

T: +9180 4339 7000
F: +9180 2559 7452
E: bengaluru@khaitanco.com

Kolkata
Emerald House
1B Old Post Office Street
Kolkata 700 001, India

T: +9133 2248 7000
F: +9133 2248 7656
E: kolkata@khaitanco.com

Mumbai
One Indiabulls Centre
13th Floor, Tower 1
841 Senapati Bapat Marg
Mumbai 400 013, India

T: +9122 6636 5000
F: +9122 6636 5050
E: mumbai@khaitanco.com

New Delhi
Ashoka Estate, 12th Floor
24 Barakhamba Road
New Delhi 110 001, India

T: +9111 4151 5454
F: +9111 4151 5318
E: delhi@khaitanco.com