Steering Towards a Greener Future: India's EV Financing Landscape

Background

India's automotive landscape is witnessing a transformative shift, with electric vehicles (EVs) emerging as the future of transportation. This transition is not only reshaping the way we commute but also revolutionizing the financial sector, particularly in vehicle financing.

India's retail vehicle finance sector has demonstrated substantial growth, reaching an estimated INR 5.9 lakh crore portfolio value by June 2023. Auto loans, responsible for about 12% of total personal finance lending in the past three years, have become a significant component of the financial landscape.

In India's evolving automotive industry, traditional Internal Combustion Engine (ICE) vehicles remain popular. Financing options for these vehicles are diverse, ranging from traditional lending institutions to dealership financing programs. Emerging trends like digitalization, fintech innovations, and tailored financing solutions are expected to shape the future of ICE vehicle financing.

However, the government aims to achieve significant Electric Vehicle (EV) penetration by 2030, targeting 80% for the two-wheeler segment and 30% for four-wheeler PVs. This shift towards EVs has stimulated the evolution of the financial landscape supporting this emerging technology. Collaborative efforts from banks, non-banking financial companies (NBFCs), and fintech startups are providing various financing options to reduce the initial costs associated with purchasing EVs.

Vehicle finance comes with two primary risks: Asset Risk, related to vehicle performance, maintenance, and resale value, and Credit Risk, assessing the creditworthiness of the customer. Currently, banks and NBFCs charge 1-4% higher interest rates for EVs compared to ICE vehicles in the personal two-wheeler segment, leading to increased down payments and monthly instalments.

Conversely, terms are nearly identical in the personal four-wheeler segment. In the commercial sector, loan terms for EVs are generally less favorable than those for ICE vehicles due to higher asset-side risk.

EV Financing

Electric vehicle (EV) financing in India is an emerging financial service that caters to the distinctive aspects of electric vehicles. While EVs come with higher initial costs, their operating expenses are significantly lower, creating a unique financing scenario.

EV financing aims to mitigate the financial impact of the upfront costs by offering tailored loans with competitive interest rates and extended repayment periods, thereby boosting the affordability of EVs for consumers. Financing options are also playing a vital role in building consumer confidence. Additionally, financing institutions are fostering consumer trust by providing warranties, buyback assurances, and comprehensive insurance plans, which address concerns about the durability and resale value of EVs.

The trend of using EV's as secondary vehicles in India only for city commute shapes up the EV financing dynamics. It affects consumer behavior, lender risk assessment, financing terms, and overall market dynamics, contributing to the accessibility and growth of EV financing options in the country.

Nevertheless, EV financing still faces several challenges which include higher initial down payments, increased interest rates and EMIs, limited financing options, and higher insurance rates. These issues stem from the unestablished resale value of EVs and batteries, evolving battery technology, difficulties in evaluating creditworthiness, and operational and maintenance risks associated with battery replacement. Furthermore, the lack of established end-of-life pricing for batteries adds to the capital expenditure burden for buyers.

Ipsos India Auto Experts' say…

To overcome the obstacles within the EV financing realm, it's imperative to adopt outcome-oriented and technology-centric business model innovations within the retail financing sector. This approach, coupled with comprehensive policy backing will bolster accessibility and affordability for individuals seeking to purchase electric vehicles (EVs) in India.

Two broad areas that we should concentrate on are:

1. Government policies can potentially alleviate these challenges. Mechanisms such as down payment subsidies, interest subventions, low-interest loans, and extended repayment periods can enhance the accessibility and affordability of EV financing. Other measures, like income tax rebates, interest-free loans, GST reduction on EVs, and waiving road taxes, can potentially lower the initial costs associated with EV ownership.
2. Innovative solutions to address EV financing challenges can range from absorbing risk through green bonds and guarantor-backed auto loans, implementing technology interventions like vehicle state tracking and AI & ML in credit assessments, establishing second life price discovery for EV batteries, and developing EV-specific finance products. These innovations could significantly support the transition to EVs in India.

In conclusion, while the road to EV financing in India is marked by challenges, the concerted efforts of various stakeholders, underpinned by innovative solutions and supportive government policies, are steering the country towards a greener, more sustainable future.

Stay tuned for more updates on the changing landscape of EV Financing in India.

Written by the Ipsos India Auto Expert Saurabh Sharma

Please get in touch: Balaji.Pandiaraj@ipsos.com