



BEYOND THE SPOTLIGHT:

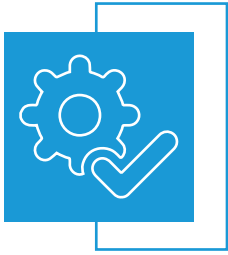
Exploring Alternative Paths to Success for Electric Vehicle Manufacturers in a Post-FAME Era



Introduction

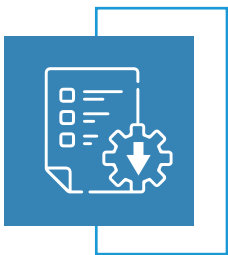
The market for electric vehicle (EV) original equipment manufacturers (OEMs) is undergoing a change after the recent reductions in the subsidy for EVs under the Government of India's FAME 2 scheme. As a result, EV OEMs now face an increased cost differential between comparable internal combustion engine and EV variants. This disparity has the potential to impact the demand for EVs, particularly in price-conscious segments, which may have unfavorable consequences for OEMs that have yet to achieve scale and profitability.

In the ever-evolving landscape of the automobile industry, reducing prices has become crucial for manufacturers seeking to maintain competitiveness. However, relying solely on price as a means to establish and sustain market leadership is a daunting challenge, particularly in high involvement B2C categories such as automobiles. To effectively compete, not only with EV manufacturers but also with ICE counterparts, manufacturers must look beyond price and explore other critical strategic levers. This note aims to delve into these factors and shed light on the strategies necessary to secure market leadership in the automobile industry.



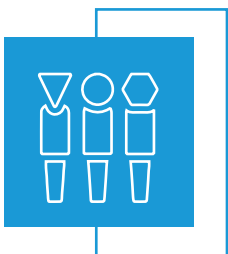
Value Engineering

A strong focus on value engineering efforts can significantly contribute to cost reduction. In the automobile industry, value engineering is usually aimed at achieving a 1-1.5% annual cost reduction. Considering the relatively early stage of EV products compared to their ICE counterparts, there is ample opportunity for value engineering (over 3% for many key components) through design changes and optimization of materials. However, it is important to note that relying solely on value engineering may not completely offset the impact of subsidy reductions. Therefore, a multipronged approach is necessary to address this challenge effectively.



Reduced Features

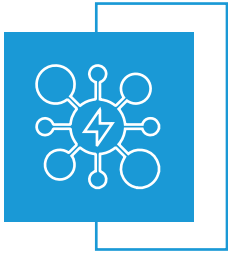
By reducing certain product features or specifications, OEMs can lower costs and attract entry-level or price-sensitive customers. However, it is essential to implement these reductions sensibly to avoid making the product proposition unappealing. A more strategic approach can involve offering basic products as options, while allowing customers to choose features such as battery size, motor power, entertainment and convenience features.



Differentiation

To compete effectively, OEMs must prioritize product differentiation as a key strategy. This can be achieved by positioning EVs as superior options compared to ICE variants. Moreover, it is crucial to differentiate from other EV competitors. This can be accomplished through the introduction of unique features, improved range, faster charging capabilities and overall enhanced performance. Investing in research and development to advance battery technology and improve energy efficiency plays a pivotal role in this strategy. Additionally, providing a seamless and exceptional customer experience, including robust after-sales support and charging infrastructure, can drive adoption and foster customer loyalty.

Innovation in product design, performance and usability experience will certainly attract premium customers who will bring in profitability and augment revenues. However, focusing on premiumization will raise the price further. This strategy primarily caters to premium customers and may not effectively address the need to attract mass-market customers for driving volume growth. Therefore, a different approach must be adopted to target the mass market segment and ensure sustainable growth.



Product Diversification

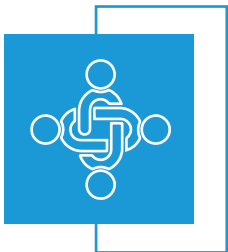
Exploring alternative revenue streams through product diversification presents a promising opportunity for EV OEMs. This can involve exploring different form factors, such as expanding from electric two-wheelers to electric three-wheelers or light commercial vehicles. Additionally, OEMs can generate revenue from accessories and add-on services, such as performance enhancement software packs. Diversifying the product portfolio not only leverages key capabilities but also enhances customer lifetime value and engagement with the brand.

However, this approach requires deep design and product development capabilities and may necessitate a shift in mindset from being a product manufacturer or assembler to adopting a consumer-oriented design approach for accessories. By focusing on delivering high-quality and tailored accessories that enhance the overall EV experience, OEMs can successfully tap into new revenue streams while maintaining customer satisfaction and brand loyalty.



Market Expansion

By targeting new markets or regions with substantial or growing government subsidies and incentives, EV OEMs can mitigate business risks and open avenues for volume and margin expansion. Exploring international markets with favorable regulatory environments or cost structures compared to incumbents can be a strategic move. However, expanding into each new market requires significant investments of time and resources. Therefore, careful location selection backed by comprehensive research is critical to ensuring a successful market entry. Conducting a thorough analysis of factors such as market demand, competition, infrastructure readiness and local consumer preferences will enable OEMs to make informed decisions and maximize their chances of success in new markets.



Collaboration

Collaboration with other EV OEMs, charging infrastructure companies and technology firms can yield mutual benefits for OEMs. By sharing costs, leveraging expertise and accelerating innovation through collaboration, OEMs can significantly reduce overall time to market and improve investor returns. However, it is essential to strike a balance between collaboration and maintaining a competitive edge through innovation to safeguard market share. By embracing both collaboration and innovation, OEMs can position themselves strategically in the EV market and drive sustained growth.

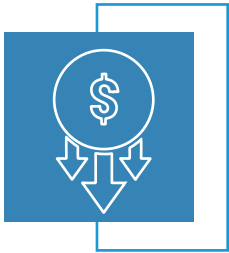


Financing/Pricing Strategy

Industry participants suggest that around 55% of two wheelers, 75% of four wheelers and 85% of three wheelers in the country are financed. Given this high dependence on financing, offering attractive and innovative financing options can be a lever to attract sales for EVs as well. Collaborating with banks and non-banking financial companies to offer EV-specific solutions can address key customer concerns, particularly the higher upfront cost associated with EVs.

However, the EV financing ecosystem is still maturing and there is a need to accelerate its development. The government and Reserve Bank of India can play a pivotal role in facilitating this process by taking initiatives such as including loans to EVs under priority sector lending. These steps can provide impetus to the EV market by making financing options more accessible and affordable for potential buyers.

In addition to financing of new vehicles, we will soon have to start thinking of appropriate products for used vehicle financing.



Absorb the Price Hike

As an alternative to passing on the subsidy reduction to end customers, OEMs can absorb the additional costs and refrain from implementing price increases. This approach aims to shield customers from direct impacts, ensuring healthy sales volumes. However, absorbing the price hike will likely lead to negative gross margins for most manufacturers and significantly increase overall losses. This situation will persist until manufacturing costs decrease adequately to offset the subsidy cut.

Striking a careful balance between customer affordability and long-term financial sustainability is crucial for OEMs navigating the impact of subsidy cuts. By strategically managing costs and continuously optimizing operations, OEMs can mitigate losses and eventually regain profitability, while ensuring the continued growth and adoption of EVs in the market.

Conclusion

Profitability has been a longstanding concern for EV manufacturers. The potential for improving gross margins lies in the improvement of global cost curves and the advantages offered by economies of scale. However, many leading EV OEMs currently face challenges in breaking even on material margins and are facing negative EBITDA margins. However, we estimate that these OEMs can potentially achieve a material margin of 20% or more by fiscal year 2030 through advancements in cost curves driven by economies of scale. It is important to note that subsidies cannot be relied upon indefinitely and a long-term perspective on business economics should assume that subsidies will eventually phase out.

The industry is currently confronted with immediate challenges in the medium term, primarily focused on how to navigate a substantial increase in costs and intensifying competition. In such times, it becomes crucial for EV OEMs to identify the appropriate strategic levers to deploy. Rather than relying on a single approach, a practical approach for these manufacturers is to adopt a combination of different strategies. Each manufacturer should carefully evaluate their market position, product portfolio, research and development capabilities, target customers, financial capacity and the competitive and regulatory landscape within which they operate. The ability to be flexible and adaptable will be paramount in navigating the ever-evolving EV market. It is worth noting that turbulent times often result in market consolidation, which tends to favor large, scaled-up and well-funded players.

In conclusion, the evolving landscape for EV OEMs presents both challenges and opportunities. By strategically assessing these key levers, EV manufacturers can effectively navigate these changes and position themselves for success in a highly competitive market.



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