KNOW HOW LOGISTIC INDUSTRY CAN HAVE A LION'S SHARE IN EV EVOLUTION

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How extending easy finance to the logistic industry can have a lion's share in EV EVOLUTION?

The adoption of electric vehicles (EVs) in India has grown significantly over the last few years. There is a three-time jump in EV sales in 2022 compared to 2021. More than 90% of the EVs sold are either two-wheelers or three-wheelers. The growth in EV sales could mainly be attributed to policies, such as production-based incentives and the FAME scheme. However, we are still way behind the Government's target of achieving 70% of all new commercial vehicles and 80% of all two-wheeler and three-wheeler sales to be electric by 2030. Currently, EVs account for only 3% of the total vehicle sales.

A key industry that could influence the EV revolution is the logistics industry. The logistics industry contributes around 14% of the total GDP and relies heavily on road transport (59% of the total freight movement).

Given that around 53% of the total delivery cost is spent on last-mile deliveries, it makes economic sense for logistics companies to switch to EVs. The total cost of ownership (TCO) of EVs is less compared to diesel/petrol alternatives in the long run, and there are no tailpipe emissions. Therefore, increasing the number of EVs in their fleet will increase economic benefits and reduce green tax and carbon footprint for logistics companies.

Building a support infrastructure and purchasing vehicles are two key components of EV adoption. With infrastructure networks yet to reach 100% coverage and battery swapping technologies still under development, fleet operators would need to spend heavily on the capital cost to build the supporting infrastructure. To address this problem, several e-commerce giants have partnered with EV start-ups and are providing training and necessary infrastructure as a service. To add EVs to their fleet, a few operators are partnering with manufacturers to source vehicles in bulk. They are also requesting delivery partners to procure vehicles for their fleet. Easy financing could play a major role in this transition.

At present, financing options provided by financing institutions to buy EVs are limited, and interest rates are very high (more than 20% for e-2-wheelers) compared to internal combustion engine vehicles. Finance providers cite low asset value, fewer resale options, and manufacturer and technology risks for the high-interest rates. The problem gets aggravated when riders of logistics companies opt for EV loans. These individuals invariably do not have a strong credit history, further increasing interest rates. There are even instances where the collateral is asked from them for issuing loans. The NITI Aayog has suggested many interventions to overcome these problems, such as priority sector lending (banks to provide a certain percentage of loans for purchasing EVs) and interest rate subvention (government bears a certain portion of the interest component).

Additionally, to make financing options attractive for financing institutions, risks need to be reduced/distributed on two fronts: the ability of the delivery partner to repay dues and problems associated with EVs. These issues could be solved by requesting warranties from original equipment manufacturers and partnering with fleet operators who could provide assurances that these vehicles or delivery partners would be allocated a minimum number of rides per month. This would enable delivery partners to pay dues on time. These assurances would also help reduce the risk of defaulting for lending institutions, thereby reducing interest rates. The reduction in interest rates would further reduce the TCO of EVs, making them a more attractive option for fleet operators and delivery partners.

The pandemic has changed the purchasing behavior of consumers significantly, and demand for logistics and hyperlocal deliveries is expected to grow significantly. This could play a significant role in the EV revolution in India. Financing should not be a roadblock to the growth of the sector. More financing options focused on EVs and logistics companies are crucial to this growth.