



Achintya Securities Limited

India's PM E-Drive Extension

Balancing Subsidies, Scale,
& Self-Reliance EV Ecosystem



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Introduction

The transition to electric mobility is one of the most critical structural shifts in India's automotive history, intersecting with the country's climate goals, energy security, and industrial policy. The government's recent decision to extend the PM E-DRIVE (PM Electric Drive Revolution in Innovative Vehicle Enhancement) scheme for electric two-wheelers (e2Ws) until March 31, 2028, marks a strategic recalibration.

While the headline news is the extension of the subsidy, the underlying mechanics reveal a shift in philosophy: moving from deep, high-value subsidies for a few, to shallower, broad-based support for the masses. This article deeply explores the nuances of the revised PM E-DRIVE scheme, its impact on original equipment manufacturers (OEMs), the broader EV ecosystem, and the critical takeaways for investors navigating this highgrowth yet volatile sector.



The Strategic Pivot: Broader Reach, Lower Subsidy

The Ministry of Heavy Industries (MHI) has fundamentally altered the mathematics of the PM E-DRIVE scheme. The core objective is no longer just to make an EV significantly cheaper today, but to support the industry long enough for economies of scale and localized battery manufacturing to naturally drive down costs.

The New Financial Architecture

The revised notification outlines the incentive structure for e2Ws registered between April 1, 2025, and March 31, 2028:

- **The Subsidy Cut:** The incentive has been slashed to ₹2,500 per kWh of battery capacity, subject to a strict maximum cap of ₹5,000 per vehicle.
- **The Previous Benchmark:** For context, during FY 2024-25, the incentive stood at ₹5,000 per kWh, with a maximum cap of ₹10,000 per vehicle. Earlier iterations under the FAME II scheme offered even higher subsidies (up to ₹15,000 per kWh).
- **The Ex-Factory Cap:** To ensure subsidies target the mass market rather than premium luxury models, the vehicle's ex-factory price must not exceed ₹1.5 lakh. Furthermore, the total incentive is limited to 15% of the ex-factory price or ₹5,000, whichever is lower.

Expanding the Umbrella

While the per-vehicle benefit has halved, the government has significantly increased the overall financial allocation for the e2W segment. The fund support has been boosted by approximately ₹1,000 crore, bringing the total outlay to ₹2,767 crore.

This expansion is crucial. It increases the number of eligible vehicles from the previously targeted 2.4 million to an impressive 4,579,120 electric two-wheelers. The strategy is clear: the government believes that a ₹5,000 subsidy while modest is still sufficient to tip the psychological balance for a consumer choosing between an Internal Combustion Engine (ICE) scooter and an EV, provided the EV industry continues to lower its base costs.

Market Dynamics: Growth, Penetration, and the ICE Decline

The timing of this extension is vital. The Indian electric two-wheeler market has maintained a blistering pace of growth, fundamentally altering the domestic automotive landscape.

The VAHAN Data Narrative

According to data from the VAHAN portal, the trajectory of e2W adoption is steep and sustained:

- In **FY22**, e2W sales stood at a modest 2,52,787 units.
- By **FY26**, sales skyrocketed to 1.46 million units.

Conversely, the traditional petrol two-wheeler market is experiencing structural stagnation. Over the same period, ICE two-wheeler sales declined from roughly 13.2 million units to around 11 million units.

The Penetration Challenge

Despite the impressive volume growth, overall EV penetration in the two-wheeler segment currently hovers around 7.6%. This remains below the government's immediate target of 9% to 10%.

When compared to the electric three-wheeler (e-3W) segment where penetration has crossed a staggering 41%, leading to the early closure of the L5 category subsidy in December 2025 it is evident that the e2W market still requires a gentle policy push to achieve critical mass.



Beyond Two-Wheelers: The Commercial and Infrastructure Push

The PM E-DRIVE scheme is not operating in isolation; it is part of a broader, holistic approach to electrifying India's transport network.

Tackling the Heavy Polluters

The government is increasingly shifting its focus toward commercial electric vehicles (CEVs). While heavy diesel trucks account for a mere 3% of the total vehicle fleet, they are disproportionately responsible for 42% of vehicular pollution and consume about 60% of the nation's diesel.

The primary barrier to electric truck adoption is the high initial capital expenditure and financing costs. Currently, there is a 3 to 4 percentage point premium on interest rates for financing electric trucks compared to their diesel counterparts. To bridge this gap, the government is actively discussing an interest-subvention mechanism and credit guarantees to de-risk lending for commercial EVs, a move that could unlock massive B2B demand.

Charging Infrastructure

Range anxiety remains a potent barrier to retail EV adoption. Under the PM E-DRIVE initiative, the government has accelerated the rollout of public charging stations. To date, proposals for charging infrastructure worth ₹710 crore to ₹715 crore have been approved, with an additional ₹190 crore under active consideration.

Furthermore, the government has allocated 14,028 electric buses to various states with a financial outlay of ₹4,391 crore, ensuring that public transit leads the electrification charge.

The Corporate Battlefield: Diverging Fortunes

The extension of the PM E-DRIVE scheme triggered an immediate positive reaction in the stock market, with shares of listed pure-play EV companies like Ola Electric and Ather Energy jumping by up to 5%. However, beneath the surface of policy tailwinds, the financial realities of these companies present a stark contrast.

Ather Energy: The Path to Profitability

Ather Energy has demonstrated a strong trajectory toward financial sustainability. In Q1, the company recorded revenue of ₹1,217 crore, a massive 88.8% Year-on-Year (YoY) growth. More importantly, Ather achieved EBITDA breakeven for the first time, and its net loss narrowed significantly from ₹178 crore to just ₹51 crore. This suggests strong cost control, efficient supply chain management, and a product mix that commands pricing power.

Ola Electric: Growth Pains and Margin Pressures

In stark contrast, market leader Ola Electric is facing severe financial headwinds. Despite leading in market share, the company's Q1 revenue plummeted by 45% to ₹455 crore, marking its seventh consecutive quarter of revenue decline.

Furthermore, Ola Electric's EBITDA margin stood at a concerning negative 43%, and its net loss, while narrowing slightly to ₹336 crore, remains substantial. The most glaring red flag for investors is the cash burn: Ola's cash flow from operations turned negative at ₹215 crore (compared to a positive ₹91 crore in the preceding March quarter).

What Does This Mean for Investors?

For investors looking at the Indian EV space, the PM E-DRIVE extension provides a clear, three-year runway of policy stability. However, the reduction in the per-vehicle subsidy means that companies can no longer rely on government handouts to pad their margins.

Key Takeaways for Investors:

- **Focus on Unit Economics:** With subsidies halved, the true test of an EV company is its Gross Margin. Companies that have heavily localized their supply chains (especially battery packs and motors) will be able to absorb the subsidy cut without passing the entire cost to the consumer.
- **Divergent Corporate Performance:** As evidenced by the Ather vs. Ola dynamic, sector tailwinds do not guarantee individual corporate success. Investors must rigorously analyse EBITDA margins, cash burn rates, and warranty/service costs.
- **The PLI Factor:** The Auto Production Linked Incentive (PLI) scheme is running concurrently, having already attracted over ₹45,000 crore in investments (surpassing its ₹42,000 crore target). Companies that qualify for PLI benefits will have a distinct margin advantage over those relying solely on consumer-end subsidies like PM E-DRIVE.



What's Next? The Road to 2028

The PM E-DRIVE extension is a classic sunset clause. It is a "fund-limited" scheme; if the ₹2,767 crore allocation is exhausted before March 2028, the scheme will abruptly close.

Furthermore, the government has explicitly stated that the incentive rate per kWh will be reviewed periodically based on the declining cost of batteries and vehicles.

This signals that the government views the Indian EV industry as entering its adolescence. The training wheels are coming off. Over the next three years, OEMs must aggressively pursue technological innovation, vertical integration, and operational efficiency. By 2028, the Indian electric two-wheeler market must be prepared to stand entirely on its own commercial merit, competing with ICE vehicles purely on total cost of ownership, performance, and consumer preference.





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