

# Automobiles & Components

India

Sector View: **Cautious**

NIFTY-50: **22,012**

March 21, 2024

## Battery electric vehicles versus hybrids—battle to intensify

Nitin Gadkari, the Minister of Road, Transport & Highways, proposed a tax reduction for hybrid vehicles to 12% from 28%/43% for sub-4m and above-4m hybrid vehicles, respectively. If the proposed policy is implemented, the ex-showroom prices of the hybrids are likely to come down by 21% and TCO will become favorable for hybrids as compared to pure EVs. Incrementally, OEMs (especially Japanese) may accelerate product introductions with strong hybrid technologies, which may hamper EV adoption in the near term.

### Nitin Gadkari bats for lower tax structure for hybrid vehicles

Nitin Gadkari, the Minister of Road, Transport & Highways, has proposed a tax reduction for hybrid vehicles to 12% from 28%/43% for sub-4m and above-4m hybrid vehicles, respectively. He highlighted that the proposal would aim to stimulate the adoption of hybrid and electric vehicles in the country, aligning with the government's broader objectives of promoting sustainable mobility and reducing pollution levels. He also emphasized the need for discussions on this matter at the upcoming GST Council meeting, underscoring the potential industry benefits, decreased imports and environmental gains.

### Existing hybrid vehicle prices will decline by 21% if taxes are reduced

If the proposed policy on hybrid vehicles is implemented, ex-showroom prices of hybrids are likely to come down by 21%. There are five hybrid models on road, which include Maruti Suzuki Grand Vitara & Invicto, Toyota Urban Cruiser Hyryder & Innova Hycross and Honda City. For instance, the price of Maruti Suzuki Grand Vitara Alpha (AT), which is currently sold at an ex-showroom price of Rs1.7 mn is likely to come down to Rs1.34 mn. Also, ex-showroom price of Maruti Suzuki Invicto will come down to Rs2 mn from Rs2.5 mn.

### TCO of hybrid vehicles with proposed tax policy will be lower than EV vehicles

TCO of Maruti Suzuki Grand Vitara will improve by 18% if the proposed policy were to be implemented. Also, the TCO will turn favorable for hybrids when compared to EVs as TCO of the top variant for Grand Vitara will be 12% lower than mid variant of Tata Nexon EV, whereas TCO for Grand Vitara is 3% higher than Nexon EV in the current tax regime. Also, we believe that there can be more launches of strong hybrids across segments, which may impact adoption of EVs in the near term given favorable TCO and no charging requirements unlike EVs.

### Japanese OEMs are well-positioned to benefit

Globally, Japanese and Korean OEMs have hybrid electric (HEV) offerings, while in India, Japanese OEMs have a few hybrid offerings, placing them in a sweet spot to capitalize on the proposed policy change. While Hyundai, Kia and Honda have 6-7 HEV offerings in global markets, Toyota leads with 27 HEV offerings. We believe Hyundai and Kia Motors will leverage this opportunity and introduce strong hybrid variants of existing and new models across segments. MSIL aims to bring in more strong hybrid vehicles across existing (Swift, Fronx, Dzire) and new models (Grand Vitara 7-seater) as the company exudes confidence that strong hybrids will account for 25% of overall sales for the company by FY2030E.

### Quick Numbers

Nitin Gadkari proposes a tax reduction for hybrid vehicles to 12% from 28%/43% for sub-4m and above 4m hybrid vehicles, respectively

If the proposed policy of 12% GST on hybrid vehicles is implemented, the ex-showroom prices of the hybrids are likely to come down by 21%

TCO of the Maruti Suzuki Grand Vitara will improve by 18% if the proposed policy of 12% GST were to be implemented for hybrid vehicles

TCO of top variant in hybrid for Maruti Suzuki Grand Vitara will be 16% lower than the mid variant of Tata Nexon EV

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Rishi Vora

rishi.vora@kotak.com  
+91-22-4336 0874

Praveen Poreddy

praveen.poreddy@kotak.com  
+91-22-4336 0865

**We expect pure EV adoption to slow down in the near term if the policy is implemented**

Strong hybrid volumes have outpaced pure electric vehicles over the past few months driven by strong demand of hybrid vehicles in the MPV segment due to its fuel efficiency. If the proposed taxation structure is implemented, we believe hybrid adoption can increase in other segments as well (SUVs, sedan and hatchback). Also, we expect customers delaying their EV/hybrid purchases as OEMs may progressively prioritize the introduction of hybrid variants for current models and potentially unveiling new models in the coming years. This will definitely impact pure electric vehicle sales in the near term and there can be increase in competitive intensity as Tata Motors and M&M (focusing on pure EVs) may resort to further price cuts (including passing on the benefits of PLI to end-consumers) to drive sales for pure EVs.

**Exhibit 1: GST tax structure for passenger vehicles based on current and newly proposed tax structures**

Vehicle description	GST (%)	Compensation cess (%)	Total tax payable based on current tax structure(%)	Total tax payable based on proposed tax structure(%)
Passenger Vehicles (petrol, CNG, LPG) upto 4m in length and upto 1,200cc engine	28	1	29	29
Passenger Vehicles (diesel) upto 4m in length and upto 1,500cc engine	28	3	31	31
Motor vehicles with an engine capacity not exceeding 1,500 cc, other than diesel vehicles	28	17	45	45
Motor vehicles of engine capacity exceeding 1,500 cc, other than SUVs	28	20	48	48
Passenger Vehicles popularly known as SUVs (above 4m in length, above >1,500cc engine & ≥170 mm ground clearance)	28	22	50	50
Hybrid Passenger Vehicles - (upto 4m and upto 1,200 cc engine petrol) or (upto 4m and upto 1,500 cc engine diesel)	28	—	28	12
Hybrid Passenger Vehicles - (above 4m or above 1,200 cc engine petrol or above 1,500 cc engine diesel)	28	15	43	12
Electric Vehicles	5	—	5	5

Source: Company, Kotak Institutional Equities estimates

**The prices of hybrid vehicles are likely to come down by 21% if the proposed tax structure is implemented**

**Exhibit 2: Pricing comparison for Grand Vitara, Brezza with existing and newly proposed tax structure**

Model	Type of vehicle	Ex-factory price (Rs)	Ex-showroom price as per current tax structure (Rs)	Ex-showroom price as per new proposed tax structure (Rs)	Price difference (Rs)	Price difference (%)
Maruti Suzuki Grand Vitara Intelligent Electric Hybrid Alpha+	Hybrid	1,337,584	1,993,000	1,578,349	414,651	(20.8)
Maruti Suzuki Invicto Strong Hybrid Zeta+ 2.0L CVT 7 STR	Hybrid	1,691,946	2,521,000	1,996,497	524,503	(20.8)
Toyota Innova Hycross Hybrid VX	Hybrid	1,726,174	2,572,000	2,036,886	535,114	(20.8)
Toyota Urban Cruiser Hyryder S e-Drive	Hybrid	1,118,121	1,666,000	1,319,383	346,617	(20.8)
Honda City e:HEV	Hybrid	1,375,174	2,049,010	1,622,706	426,304	(20.8)

Source: Company, Kotak Institutional Equities estimates

**TCO of Maruti Suzuki Grand Vitara will be 16% lower than Nexon EV if the proposed tax structure comes into effect**
**Exhibit 3: TCO comparison for Grand Vitara with existing and new proposed tax structure with Nexon EV**

	Tata Nexon Fearless EV	Maruti Suzuki Grand Vitara Smart Hybrid Alpha Current tax structure	Maruti Suzuki Grand Vitara Smart Hybrid Alpha Proposed new tax structure
Ex-showroom price	1,649,000	1,691,000	1,339,181
RTO	186,000	219,830	174,094
Insurance & others	68,958	101,460	80,351
<b>On-road price (Rs)</b>	<b>1,903,958</b>	<b>2,012,290</b>	<b>1,593,626</b>
Battery size (kWh)	30		
Fuel cost (Rs/kWh or Rs/l)	8	104	104
Mileage (km/unit)	228	20	20
<b>Running cost (Rs/km)</b>	<b>1.1</b>	<b>5.3</b>	<b>5.3</b>
Fuel cost over 50,000 kms	52,747	265,842	265,842
Maintenace cost	25,000	50,000	50,000
Battery replacement cost	204,000	14,000	14,000
<b>Total cost of ownership (TCO) (Rs)</b>	<b>2,185,705</b>	<b>2,342,132</b>	<b>1,923,467</b>
<b>Difference in TCO with respect to Nexon EV (%)</b>		<b>7.2</b>	<b>(12.0)</b>

Notes:

- (a) Battery replacement cost of USD80 per kWhr after 5 years
- (b) Assumed 70% of quoted range for EV and Hybrids
- (c) Annual running of vehicle at 10,000 km

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Specifications comparison for Grand Vitara with other mid-size SUV competitors

	Maruti Grand Vitara Smart Hybrid Alpha	Mahindra XUV 400 L Pro	Tata Nexon Empowered+ LR	Hyundai Creta SX(O) -New	Kia Seltos GTX+
<b>Comparison of specifications for various PV models</b>					
Ex-showroom prices - Mumbai (in Rs) with existing tax policy	1,691,000	1,769,000	1,929,000	1,999,900	1,997,900
Ex-showroom prices - Mumbai (in Rs) with new proposed tax policy	1,339,181	1,769,000	1,929,000	1,999,900	1,997,900
Tye of variant	High end	High end	High end	High end	High end
<b>Engine</b>					
Fuel type	Petrol ( Smart hybrid)			Diesel	Diesel
Engine type	1.5l			1.5l U2 CRDi	1.5l CRDi VGT
Engine capacity(cc)	1,462			1,493	1,493
Battery capacity		39.4 kWh with 7.2 kWh charger	40.5 kWh with 7.2 kWh charger		
Motor type		PMSM	PMSM		
Max Power ( KW @ RPM)	75.8 @ 6000	110	106	85 @ 4000	85 @ 4000
Max Torque(NM @ rpm)	136.8 @ 4400	310	215	250 @ 2750	250 @ 2750
Range per recharge (km)		456	465		
Mileage (km/l)	28			19	18
<b>Transmission</b>					
Type	AT	AT	AT	AT	AT
<b>Dimensions</b>					
L*W*H (mm)	4345x1795x1645	200 x 1821 x 1634	194 x 1811 x 1616	4300x1790x1635	4315x1800x1645
Wheelbase in mm	2,600	2,600	2,498	2,610	2,610
Boot space (L)	373	378	350	433	433
Seating capacity	5	5	5	5	5
Ground clearance(in mm)	208	200	205	190	190
<b>Drive performance</b>					
Front brakes	Disc	Disc	Disc	Disc	Disc
Rear brakes	Disc	Disc	Disc	Disc	Disc
Type of wheel	Alloy	Alloy	Alloy	Alloy	Alloy
Tyre size	215/60 R17	205/65R16	215/60R16	215/60 R17	215/60 R17
Front suspension	McPherson strut with coil spring	McPherson strut with anti-roll bar	MacPherson strut with coil spring	McPherson strut with coil spring	McPherson strut with coil spring
Rear suspension	Coupled torsion beam axle	Twist beam with coil spring	Twist beam with dual path Strut	Coupled torsion beam axle	Coupled torsion beam axle
<b>Features</b>					
Projector headlamps	LED	Bi-Halogen	LED	Trio beam LED	Crown Jewel LED lamps
# of air bags	6	6	6	6	6
Electronic stability control	Yes	Yes	Yes	Yes	Yes
Hill start assist system	Yes	Yes	Yes	Yes	Yes
Instrument cluster (in inch)	23	26	26	26	26
Smart panoramic sunroof	Yes	Yes	Yes	Yes	Yes

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Specifications comparison for Toyota Innova Hycross with other large-size SUV competitors

	Toyota Innova Hycross Hybrid VX	Mahindra XUV 700 AX7	Mahindra Safari Z8L	Tata Safari Adventure	MG Hector Plus sharp Pro
<b>Comparison of specifications for various PV models</b>					
Ex-showroom prices - Mumbai (in Rs) with existing tax policy	2,572,000	2,299,000	2,179,201	2,099,000	2,172,800
Ex-showroom prices - Mumbai (in Rs) with new proposed tax policy	2,036,886	2,299,000	2,179,201	2,099,000	2,172,800
<b>Engine</b>					
Fuel type	Petrol ( Smart hybrid)	Petrol	Petrol	Diesel	Petrol
Engine type	2l TNGA 5th generation hybrid	Turbo Petrol with Direct Injection (TGDI)	Turbo Petrol with Direct Injection (TGDI)	Kryotec 2.0L BS6 Ph 2 Turbocharged Engine	1.5L Turbocharged intercooled engine
Engine capacity(cc)	1,987	1,987	1,987	1,956	1,451
Max Power ( KW @ RPM)	137 @ 6000	147 @ 5000	149 @ 5000	125 @ 4000	105 @ 4000
Max Torque(NM @ rpm)	188 @ 4400	380 @ 2750	380 @ 2750	350 @ 2750	250 @ 2750
Mileage (km/l)	23	13	14	15	14
<b>Transmission</b>					
Type	AT	AT	AT	AT	AT
<b>Dimensions</b>					
L*W*H (mm)	4755x1845x1795	4695 x 1890 x 1755	4662 x 1917 x 1857	4668x1922x1795	4699x1835x1760
Wheelbase in mm	2,850	2,750	2,750	2,741	2,750
Boot space (L)	300	240	460	420	587
Seating capacity	7	7	7	7	5
Ground clearance(in mm)	185	200	197	205	192
<b>Drive performance</b>					
Front brakes	Disc	Disc	Disc	Disc	Disc
Rear brakes	Disc	Disc	Disc	Disc	Disc
Type of wheel	Alloy	Alloy	Alloy	Alloy	Alloy
Tyre size	215/60 R17	235/60 R18	255/60 R18	235/60 R18	215/55 R18
Front suspension	McPherson strut with coil spring	McPherson strut with anti-roll bar	: Double Wishbone Suspension	McPherson strut with coil spring	McPherson strut with coil spring
Rear suspension	Semi-independent torsion beam axle	Multi-link independent suspension	Pentalink Suspension with WATT's Linkage	Semi Independent Twist Blade with coil spring	Coupled torsion beam axle
<b>Features</b>					
Projector headlamps	Tri-Eye LED	LED	LED	LED	LED
# of air bags	6	6	6	6	6
Electronic stability control	Yes	Yes	Yes	Yes	Yes
Hill start assist system	Yes	Yes	Yes	Yes	Yes
Instrument cluster (in inch)	23	26	18	26	18
Smart panoramic sunroof	No	Yes	Yes	Yes	Yes

Source: Company, Kotak Institutional Equities estimates

**Japanese and Korean OEMs have strong hybrid offerings in their portfolios in international markets**

**Exhibit 6: Strong hybrids offerings of various OEMs**

OEM	Model	Segment
Hyundai	Elantra	Sedan
	Sonata	Sedan
	Azera	Sedan
	Santa	SUV
	Tucson	SUV
	Kona	SUV
Kia Motors	Carnival	MPV
	K8	Sedan
	Niro	SUV
	Sorento	SUV
	Sportage	SUV
Toyota	Alphard	MPV
	Aqua	Hatchback
	Camry	Sedan
	Century	SUV
	Corolla	Sedan
	Crown	Sedan/Crossover
	Yaris	Hatchback
	Harrier	SUV
Honda	Prius	Sedan
	Jazz	MPV
	Civic	Sedan
	HR-V	SUV
	XR-V	SUV
	CR-V	SUV
	City	Sedan

Note: The list is not exhaustive

Source: Company, Kotak Institutional Equities

**Hybrid mix in overall PV sales has witnessed an uptick in the past 5 quarters**

**Exhibit 7: Powertrain wise sales trends for passenger vehicles, calendar year-ends, 1QCY22-4QCY23**

	1QCY22	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23	3QCY23	4QCY23
<b>PV powertrain wise sales volumes</b>								
ICE	806,809	797,413	897,407	803,698	858,531	838,284	893,299	839,669
CNG	103,020	99,940	111,702	99,933	114,915	117,663	131,745	126,279
Hybrid	459	722	2,525	15,841	22,389	14,399	22,022	23,796
EV	9,535	10,471	13,155	14,478	21,109	26,794	24,028	20,490
<b>Total</b>	<b>919,823</b>	<b>908,546</b>	<b>1,024,789</b>	<b>933,950</b>	<b>1,016,944</b>	<b>997,140</b>	<b>1,071,094</b>	<b>1,010,234</b>
<b>PV powertrain wise sales mix (%)</b>								
ICE	87.7	87.8	87.6	86.1	84.4	84.1	83.4	83.1
CNG	11.2	11.0	10.9	10.7	11.3	11.8	12.3	12.5
Hybrid	0.0	0.1	0.2	1.7	2.2	1.4	2.1	2.4
EV	1.0	1.2	1.3	1.6	2.1	2.7	2.2	2.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Autopundit, Kotak Institutional Equities

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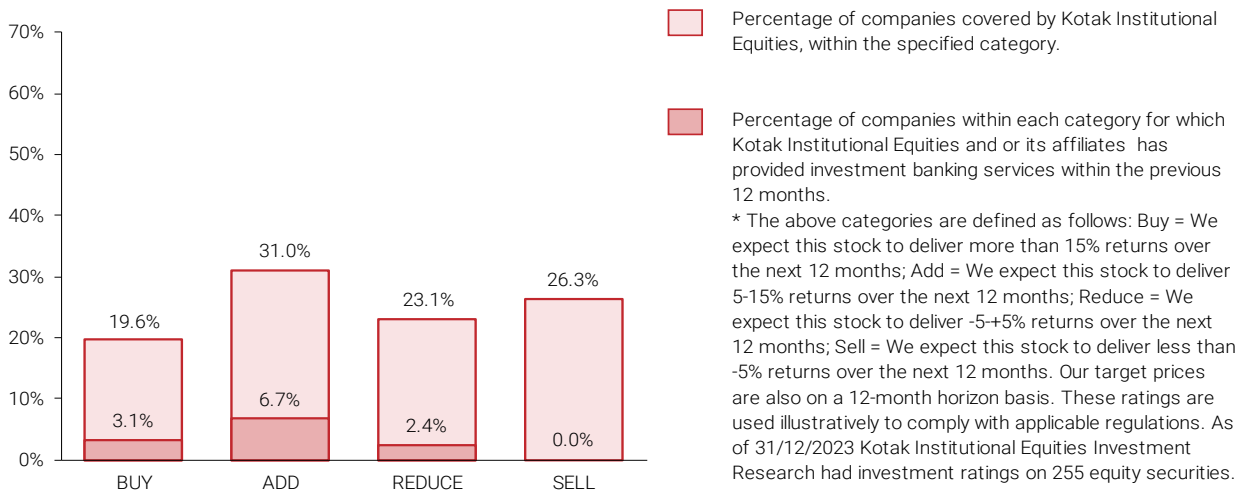
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## Corporate Office

Kotak Securities Ltd.  
27 BKC, Plot No. C-27, "G Block" Bandra Kurla  
Complex, Bandra (E) Mumbai 400 051, India  
Tel: +91-22-43360000

## Overseas Affiliates

Kotak Mahindra (UK) Ltd  
8th Floor, Portoken House  
155-157 Minorities, London EC3N 1LS  
Tel: +44-20-7977-6900

Kotak Mahindra Inc  
PENN 1,1 Pennsylvania Plaza,  
Suite 1720, New York, NY 10119, USA  
Tel: +1-212-600-8858

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Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: [www.kotak.com](http://www.kotak.com) / [www.kotaksecurities.com](http://www.kotaksecurities.com). Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137/(Member of NSE, BSE, MSE, MCX & NCDEX), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-629-2021. Compliance Officer Details: Mr. Hiren Thakkar. Call: 022 - 4285 8484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com)

Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097	18002099393	<a href="mailto:ks.escalation@kotak.com">ks.escalation@kotak.com</a>
Head of Customer Care	Mr. Tabrez Anwar		022-42858208	<a href="mailto:ks.servicehead@kotak.com">ks.servicehead@kotak.com</a>
Compliance Officer	Mr. Hiren Thakkar		022-42858484	<a href="mailto:ks.compliance@kotak.com">ks.compliance@kotak.com</a>
CEO	Mr. Jaideep Hansraj		022-42858301	<a href="mailto:ceo.ks@kotak.com">ceo.ks@kotak.com</a>

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