



Vehicle scrap recycling progressive for the auto sector; Effective implementation crucial

Brickwork Ratings, New Delhi, 24 March 2021: The voluntary vehicle scrappage policy, as announced in Union Budget 2021-22, has been rolled out with the idea of fulfilling the government's manifold objectives of curbing pollution, improving vehicular safety and reducing oil import bills. Simultaneously, it is expected to catalyse demand for new vehicles and indirectly pave the way for promoting electric vehicles, the adoption of which is so far at the nascent stage.

Direct incentives under the policy include a scrap value for old vehicle (ranging between 4-6% ex-showroom price of a new vehicle), 5% discount on the purchase of a new vehicle against the scrapping certificate and registration fee waiver. Additionally, there could be road tax rebates of up to 25% for passenger vehicles and up to 15% for commercial vehicles (as advised to state governments).

Tanu Sharma, Director-Ratings at Brickwork Ratings, opines, "*Vehicle scrapping and replacement policy is a progressive step towards inducing revival of the Covid-19-hit automotive industry. Additionally, in the long-run, the policy may also bring down the cost of automobile production by recycling scrap, and thereby aid job creation.*"

The voluntary nature of the scrappage policy coupled with a "moderate" incentive structure for vehicle owners, as outlined in the policy, in itself, may not be effective in creating meaningful new demand. However, scrappage policy will provide stimulus to private vehicle owners to prepone purchases due to the high cost of fitness testing, among others. On the other hand, the policy is expected to improve demand for medium and heavy commercial vehicles, which have seen considerable contraction over the last 2 years. Hence, recovery over the low base is expected, which will see acceleration post mandatory testing (commencing 2023).

According to the Ministry of Road Transport and Highways, there are 5.1 million light motor vehicles older than 20 years, 3.4 million light motor vehicles older than 15 years and 1.7 million medium and heavy commercial vehicles older than 15 years without valid fitness certificates.

As per the vehicle scrappage policy, private vehicles older than 20 years and commercial vehicles older than 15 years will undergo a mandatory automated fitness test, failing which, these will be deregistered and categorised as 'End of life-vehicles' and scrapped. Hence, enforcement will be key to get the vehicles scrapped once they are found unfit for use.



"The successful implementation of the plan depends on timely setting up of adequate scrapping infrastructure in the country such as automated fitness test centres and scrapping yards and the facilities to dispose of the non-recyclable waste in an efficient and ecological manner," says Tanu Sharma, Director-Ratings at Brickwork Ratings.

The scrappage policy implementation might cushion the car manufacturing industry to some extent with availability of low-priced raw material (such as steel, rubber, aluminium, plastics) on account of scrapping of old vehicles, despite the steep rise in prices seen in the near past.

Scrappage plan should get the support of the States and the backing of manufacturers who stand to benefit from a spurt in demand. The Centre has to arrive at a balance and have incentives that are linked with electric vehicles and reward manufacturers of vehicles that are the most fuel-efficient. Additionally, GST rationalisation would further help bring down the overall cost of ownership, which has inched up due to increased input and compliance costs.

Contacts:

Tanu Sharma
Director- Ratings

Rajat Bahl
Chief Knowledge Officer

Rajee R
Chief Ratings Officer

Ria Matwani
Research Editor

Investors & Media Contact

+91 95133 99706

1-860-425-2742

investordes@brickworkratings.com

media@brickworkratings.com



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