March 21, 2018 I Industry Research

Vehicle Scrap Policy gets thumbs up at the PMO Meet

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-67543489

Darshini Kansara
Research Analyst
darshini.kansara@careratings.com
91-22-67543679

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-67543515

In order to take the polluting commercial vehicles (CVs) off road, the government may fix 20 years as the lifetime of the commercial vehicles. ***The Vehicle scrapping policy will come into force from April 1, 2020, a top government official said***.

Starting 2020, all pre 2000 registered commercial vehicles would be off road. And vehicles that are registered after the government approve this policy will have a lifetime of 20 years," the official added. At the high level meeting in the Prime Minister's Office attended by the CEO of Niti Aayog with the secretaries of finance, heavy industries, transport, DIPP and MSME ministries has given their in principle approval to the said vehicle scrapping policy. ***The Finance Ministry has recently approved the policy and the proposal is expected to be sent to the Cabinet soon for the final approval.***

Currently, the government expects about 6.4 lakh pre 2000 (when BS-I emission was introduced) registered commercial vehicles on the roads and there are certain incentives being worked out for owners who go ahead with scrapping their pre 2000 registered commercial vehicles and replacing them with the new ones under the proposed policy, the official added. Also, the Steel ministry will be setting up scrapping units while the Environment and Forest Ministry will come out with rules and regulations.

The 3 incentives proposed for the CVs scrapped –

- GST reduction at the time of purchase of the new vehicle
- Fair value for the scrap and
- Discounts from vehicle manufacturers

These incentives are expected to reduce the cost of new vehicle by about 15-20% on an average for the buyer. Moreover, those who go for buying an electric vehicle against the scrapped one may also get some incentive under government's FAME scheme. The idea is to also try and get the GST Council to consider a lower goods and services tax on new commercial vehicles bought against a scrapped one, from the current rate of 28% to 12 or 18%.

Under the plan, owners opting for replacement of old vehicles will have to deposit documents relating to the vehicle at the recycling center. Post verification, the owner will get a certificate and the value for the scrap. He then has to provide the certificate to the dealer while buying the new vehicle to avail of the discount and tax incentive.

The first draft of the proposed Vehicle scrapping Policy was released in 2016 by the road transport and highways ministry that said CVs older than 15 years should be taken off road. However, the committee of secretaries has now decided that it should be made mandatory for 20 year old vehicles.

CARE Ratings' View:

- ***Currently, our estimate is that there are about 6.5-7 lakh pre 2000 (when BS-I emission was introduced) registered commercial vehicles on the roads.*** *Once the policy gets the final nod from the Cabinet and is implemented and effective from April 1, 2020, the replacement demand for Commercial vehicles will register an incremental growth.*
- Assuming the demand arises in a phased manner – over 3 year period (FY21-FY23), an additional demand of about 2.2-2.3 lakh CVs every year between FY21 and FY23 over and above the expected growth of about 9-10% in demand on a y-o-y basis is expected to boost CVs sales during the period. Assuming part of the replacement takes place in the interim period; growth rate can double to 18-20% during the period FY21 to FY23 before reverting to the trend growth rate.
- *Ceteris Paribus*, with the current capacity utilization rates of about 50-55%, for the additional demand of about 6.5-7 lakh CVs split between the M&HCVs and LCVs segment (sold prior to FY00) that needs to be replaced post implementation of the policy, the industry will be required to increase their utilization rates to about 70-80%, to be able to cope with the additional demand post FY20. *However, to understand the aspects of the policy better and the benefits from the scheme, the industry has to wait for the final approval by the GST Council.*
- Also, with *various initiatives taken by the government in the Union Budget 2019 for the* ***Agriculture and Infrastructure*** *sectors, approval of* ***biggest highway construction projects in India****, higher allocation to* ***rural sectors*** *and the* ***regulatory norms on overloading the vehicles****, the demand is expected to register strong growth in the coming years. However, the* ***rising fuel costs and frequent policy changes*** *are the key concerns for the industry.*

CORPORATE OFFICE:
CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

Follow us on /company/CARE Ratings
/company/CARE Ratings