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## Minister shares glimpse of voluntary scrappage policy

Nitin Gadkari, Road Transport & Highways Minister, yesterday in parliament shared a glimpse of the much awaited voluntary scrappage policy. ***The actual policy draft is expected to be made public over the next few weeks.*** The ministry press release states that commercial vehicles beyond 15 years old and that fail to obtain a fitness certificate from automated fitness centres (adhering to global standards), will be de-registered and declared as end of life vehicles. In case of private vehicles, those over 20 years old, and which fail the testing or re-registration will be declared as end of life vehicles. **Voluntary scrappage policy or Voluntary Vehicle-Fleet Modernization Programme (VVMP) is aimed at curbing pollution, replacing the existing fleet of less fuel efficient vehicles and increasing road safety.** Government owned vehicles over 15 years old (state, Centre as well as PSU) will be mandatorily scrapped from April 1, 2022.

### Other brief highlights

- 1) India has **51 lakh light motor vehicles above 20 years** old while the same figure for vehicles above 15 years old is 34 lakh units.
- 2) Volume of **M&HCV's >15 years** old and without a valid fitness certificate is **~17 lakh units.**
- 3) VVMP will also aim at formalising the domestic vehicle scrapping industry and **augmenting availability of recycled** metal and auto space raw materials.
- 4) VVMP aims to provide **financial incentive to vehicle owner for scrapping their old and unfit vehicles.** The incentives are proposed in three aspects: (i) **scrap value of old vehicle** by the scrapping centre in the **range of 4-6%** of ex-showroom price of new vehicle, (ii) **Road tax rebate** being proposed at the state level **up to 25% for personal vehicles** and **up to 15% for commercial vehicles**, (iii) **incentive from auto OEMs** against the produce of scrapping certificate to the tune of **5%** on new vehicle purchase & (iv) **waiver of registration fee** for new vehicle purchase against the scrapping certificate.
- 5) Policy will also promote setting up of **Registered Vehicle Scrapping Facility (RVSF)** across India and will lay emphasis on PPP model.
6. **Finance Ministry has also been approached for lowering of GST rate** on purchase of new vehicles against the scrapped old vehicles.
7. **Tentative timelines** under proposed scrappage policy be as follows:
  - (i) Rules for fitness tests and scrapping centres: October 1, 2021
  - (ii) Mandatory fitness testing for heavy CVs: April 1, 2023
  - (iii) Mandatory fitness testing (for other categories, in phases): June 1, 2024

### Our take

With the chief objectives of the Voluntary Scrappage Policy being (a) curbing pollution and (b) replacement of older vehicles with new fuel efficient ones, it remains a **longer term structural positive for the auto space.** However, given the timelines proposed and tad lower incentives than anticipated, we believe the benefits would be back ended in nature. The potential beneficiaries of the above move will be the entire commercial vehicle (CV) value chain ranging from OEM players to auto ancillaries including tyre players as well as tyre ancillaries. Our preferred picks here are **Ashok Leyland** in the auto OEM space, **Wabco India** and **MM Forging** in the auto ancillary space, **JK Tyre** and **Apollo Tyre** in the tyre space.

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