



THE STANDARD STANCE

Counting the Cost of Clean Air: How India's Vehicle Scrappage Policy Affects Corporate Financial Reporting

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BACKGROUND

What Has Changed

India's Voluntary Vehicle-Fleet Modernisation Programme (VVMP) or Vehicle Scrapping Policy (VSP), notified by the Ministry of Road Transport and Highways in 2021 and progressively operationalised and implemented progressively up to 2026, creates a structured path for ageing passenger and commercial vehicles to be scrapped at authorised Registered Vehicle Scrapping Facilities (RVSFs) in exchange for financial and tax incentives on a replacement vehicle.

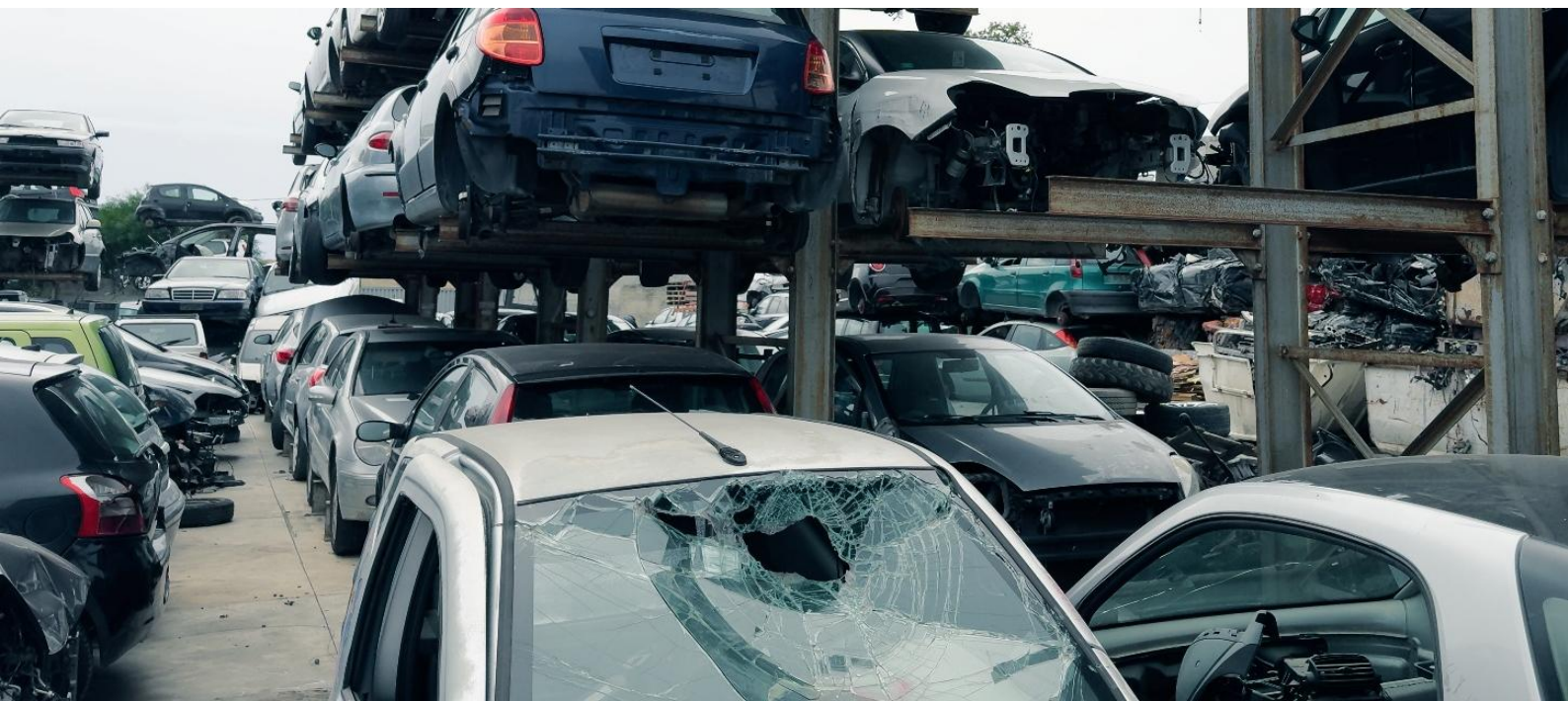
The policy aims to phase out unfit vehicles through periodic testing, formal scrapping via authorised facilities, and incentives linked to voluntary scrapping, while aligning environmental hazards, safety and compliance objectives with market-based outcomes.

For many businesses, vehicles are not just assets on the balance sheet; they are operational enablers. Any policy change that influences the expected period of use, the residual value, or the ability to legally operate a vehicle becomes, in our view, an important input into accounting judgements under Ind AS, particularly those relating to accelerating asset replacement cycles, triggering accelerated depreciation and impairment, and providing financial incentives that could reduce the capital cost of replacement.

KEY CHANGES EFFECTIVE IN VARIOUS PHASES FROM APRIL 2022

There is a range of financial and operational signals that should prompt a heightened going concern assessment:

- ▶ **Mandatory fitness tests:** Age thresholds for commercial and private vehicles to undergo mandatory fitness tests at automated testing stations (ATS) on an annual basis, where:
 - Private vehicles over 20 years, and Commercial vehicles over 15 years are permitted for renewal ONLY if fitness standards are met.
- ▶ **Failure of fitness test leads to deregistration:** Vehicles that fail prescribed fitness tests over the applicable age thresholds may be declared unfit, deregistered and scrapped through authorised vehicle scrapping facilities, i.e., RVSP-established and authorised yards in each state.
- ▶ **Government and PSU vehicles:** Government owned vehicles over 15 years are mandatorily required to be scrapped, unless any other regulation overrides it.
- ▶ **Extended Producer Responsibility (EPR) move from 'intent' to 'obligation':** Following the update in 2026, producers (OEMs and importers) bear a statutory and operational obligation to ensure environmentally sound scrapping and recycling of vehicles reaching end of life based on prescribed age and fitness criteria (refer further guidance on EPR in the document).
- ▶ **Incentives included:** While the scrapping programme has linked incentives (such as registration fee waivers, road tax rebate and other replacement benefits) that continue to play a role in influencing behaviour and compliance, deregistration and scrapping are now more clearly anchored to defined thresholds, fitness outcomes and statutory consequences, reducing reliance on voluntary action alone.
- ▶ **Delhi-NCR rules:** As a region-specific rule, different age thresholds apply. Diesel vehicles over 10 years and petrol vehicles over 15 years cannot ply in NCR, i.e., must be moved to another state or scrapped.



Who will be impacted

The Vehicle Scrappage Policy impacts multiple stakeholders across the economy, not just vehicle owners; in particular, the following:

- ▶ **Fleet owners and operators (logistics, transport, mining):** For fleet-heavy operators, vehicles are primary revenue-generating assets and typically constitute the principal assets within fleet-based CGUs. The scrappage policy increases the probability that older vehicles that may fail fitness tests result in enforced downtime, higher compliance costs, or accelerated disposal.
- ▶ **Mobility and passenger transport platforms:** In passenger mobility businesses, service delivery is highly sensitive to vehicle availability. Fitness-related deregistration or delays in renewal can disrupt operations, reduce utilisation and expose entities to contractual penalties or service-level credits.
- ▶ **Leasing companies, NBFCs and vehicle financiers:** For lessors and financiers, the policy increases residual value risk and affects the secondary market for older vehicles. Accelerated scrappage or earlier disposal may influence lessee behaviour, renewal patterns, increase in vehicle financing demands and shorter asset life cycle.
- ▶ **Automotive OEMs and vehicle importers (manufacturers) -** For OEMs and importers, the primary impact arises from the obligation on both operational and financial fronts. The introduction of Extended Producer Responsibility (EPR) obligations accelerates formal scrappage processes and increases manufacturers' obligations throughout the lifecycle of the vehicle.
- ▶ **Scraping facilities and recyclers (RVSFs) -** RVSFs and recyclers are directly impacted as the policy introduces a formal recycling ecosystem along with environmental and reporting obligations. This also brings increased revenue opportunities and cost structures.

Accounting Considerations

An interaction of the scrappage policy with the applicable Ind AS reporting framework

This section explains in detail how India's Vehicle Scrappage Policy interacts with core Ind AS requirements. It focuses on the practical accounting judgements that entities are required to make where the policy influences asset usage patterns, recoverability, disposal timing and compliance obligations.

Vehicles as PPE – useful life and depreciation (Ind AS 16)

Ind AS 16 requires entities to review useful lives and residual values at least at each reporting date. The scrappage policy may provide new information relevant to this review, particularly where management revises fleet renewal strategies to manage compliance risk or operational disruption and align to the expected pattern of economic benefits.

Our view:

- **Accelerated depreciation for any shortened useful life of an asset.** However, the scrappage policy should not be interpreted as a prescriptive reset of useful lives across vehicle fleets. In most cases, continued ability to pass fitness tests could support existing depreciation assumptions over useful lives.
- **Revisions to useful life or residual value** are appropriate only where management decisions or operating realities indicate a sustained change in the expected pattern of economic benefits; for example, a deliberate shortening of fleet replacement cycles, persistent compliance-related downtime, or an observable decline in resale values.
- **Judgement should be evidence-based**, applied consistently across similar asset classes (such as commercial, private vehicles, etc.), and clearly documented, as changes affect future depreciation prospectively.

Impairment under Ind AS 36 – how the scrappage policy influences recoverability

Ind AS 36 requires assets and cash generating units to be tested for impairment only when indicators suggest that their carrying amounts may no longer be recoverable. Regulatory developments are relevant in this assessment only to the extent that they affect expected cash flows, usage levels, costs or disposal values.

The Vehicle Scrappage Policy does not, by itself, create an automatic impairment requirement. Instead, it changes the context in which impairment indicators are evaluated. Fitness related restrictions, sustained idle capacity, increased compliance costs or weakened secondary markets may constitute indicators where they demonstrably affect cash inflows, usage levels or disposal values.

Our view:

The critical distinction is between regulatory uncertainty and a demonstrable reduction in recoverable amount. Where vehicles continue to be deployed as planned and cash flows are largely unaffected, impairment losses will often not arise, even if the policy has increased monitoring or compliance efforts. Conversely, where enforcement results in sustained idle capacity, shortened economic lives at a Cash-Generating Unit (CGU) level, or materially lower disposal values, an impairment assessment and potentially an impairment loss may be required.

However, for most entities, impacts are expected to emerge gradually through revised depreciation profiles rather than abrupt impairment losses. Nevertheless, entities with ageing fleets and stringent enforcement environments should carefully document indicator assessments and related judgements.

Derecognition, scrap proceeds and incentives (Ind AS 16 and Ind AS 20)

Vehicles are derecognised when disposed of or when no future economic benefits are expected from their use or disposal. Physical scrapping through authorised facilities typically establishes a clear derecognition point. Gains or losses on disposal, including scrap proceeds or non-cash consideration, are recognised in profit or loss and are not treated as revenue from operations.

Further, scrapping linked incentives require careful evaluation under Ind AS 20 based on substance:

- **Asset-related grants:** Where concessions are contingent on acquiring a replacement vehicle and designed to offset its cost, they are recognised systematically over the useful life of the related asset or net off, both approaches are permitted by the accounting standard, ensuring entities follow uniform accounting policy.
- **Income-related grants:** Where benefits compensate for costs already incurred, they are recognised in profit or loss over the period of the related costs.
- **Commercial discounts:** OEM or dealer discounts against scrapping certificates are generally price adjustments unless the OEM acts as a government agent.

Our view:

The nomenclature applied to a scrapping linked incentive (such as a “rebate”, “discount” or “certificate benefit”) is secondary, where the determining factor is whether, in substance, the arrangement represents a transfer of government resources in return for compliance with specified conditions, thereby meeting the definition of a government grant under Ind AS 20.

Careful analysis of the underlying conditions, claw back provisions and enforcement mechanisms is essential to ensure that accounting reflects economic substance rather than contractual form.

Extended Producer Responsibility (EPR) of manufacturers or bulk consumers (Ind AS 37)

The Extended Producer Responsibility (EPR) framework for end of life vehicles is intended to make vehicle producers responsible for the environmentally sound management of vehicles at the end of their useful lives. Under the Environment Protection (End of Life Vehicles) Rules, 2025, producers (including automotive OEMs and vehicle importers) are assigned legally enforceable obligations to ensure that a specified proportion of vehicles placed on the market in earlier years are channelled into authorised scrapping and recycling systems.

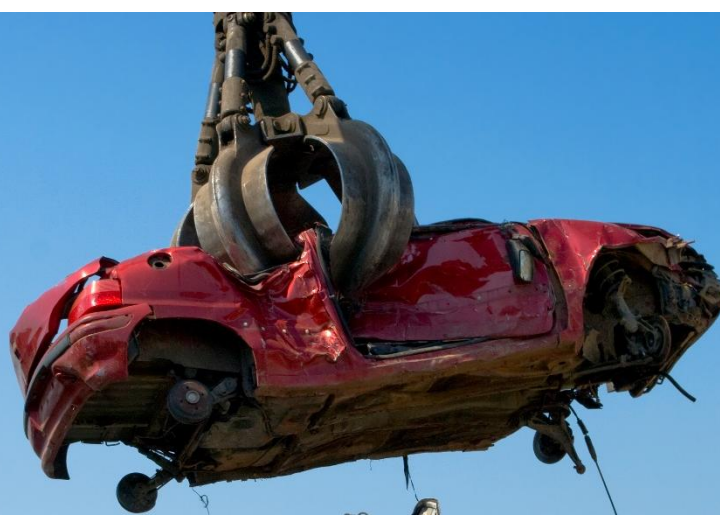
Under EPR, a producer’s responsibility does not end with manufacturing or sale. Accountability extends until the product reaches environmentally sound recycling or disposal.

At its core, the EPR regime seeks to shift end of life responsibility upstream from vehicle owners and scrapping facilities to manufacturers.

The EPR obligations are compulsory for producers because they arise from statutory rules notified under environmental legislation and are therefore legally enforceable rather than voluntary.

Consequently, producers have limited discretion over participation, and the primary judgement lies in determining how obligations are met and when they crystallise for accounting purposes.

From an accounting perspective, this compulsory nature is central to the assessment of whether the EPR framework gives rise to a present obligation under Ind AS 37, requiring careful evaluation of the obligating event, timing of recognition and measurement of expected outflows, rather than treating EPR costs as discretionary or voluntary expenditures.



How EPR affects manufacturers operationally

For producers, the EPR framework introduces a new, recurring compliance dimension that is decoupled from current year sales. Obligations are typically linked to vehicles placed on the market in earlier periods (based on prescribed age thresholds), meaning that compliance costs and actions may arise even where there is no direct current period revenue linkage. Producers may meet obligations either through direct scrappage arrangements or by acquiring eligible certificates through authorised channels, depending on the regulatory design.

Accounting implications for producers and bulk consumers – Ind AS perspective

From a financial reporting standpoint, EPR represents one of the most significant accounting developments arising from the scrappage ecosystem:

- ▶ **Ind AS 37 (Provisions, Contingent Liabilities and Contingent Assets):** The central accounting assessment under the EPR framework is whether it gives rise to a present obligation at the reporting date, rather than a future or contingent obligation. This requires careful identification of the obligating event, i.e., the point at which the entity no longer has realistic discretion to avoid compliance. In practice, judgement is required to evaluate whether this occurs when vehicles are placed on the market (thereby creating a future end-of-life responsibility), when periodic EPR targets are notified and crystallised on the government portal, or when a compliance shortfall arises. The analysis should consider legal enforceability, the nature of penalties or restrictions for non-compliance, and whether regulatory mechanisms effectively compel compliance before actual settlement occurs.
- ▶ **Measurement of obligations (Ind AS 37):** Where a present obligation exists, producers must recognise a provision measured at the best estimate of the expenditure required to settle the obligation at the reporting date. This may include anticipated costs of scrappage or recycling, payments to authorised vehicle scrapping facilities, or the cost of acquiring EPR-related certificates through regulated mechanisms.

Measurement can involve significant estimation uncertainty, particularly where inputs such as certificate prices, eligible volumes, the timing of utilisation, and availability of scrappage capacity are subject to market or regulatory variability. Assumptions used should reflect current conditions, be internally consistent with compliance strategies, and be reviewed at each reporting date.
- ▶ **Timing of recognition:** Obligations may arise progressively over time rather than at the point of settlement, particularly where responsibility is linked to vehicles placed on the market in earlier periods, thereby requiring accrual based recognition rather than expense recognition only when payments are made. Clear articulation of how the obligating event aligns with the pattern of accrual is critical to justify the timing of recognition under Ind AS 37.
- ▶ **Presentation and disclosure:** Given the degree of judgement involved in identifying obligating events, estimating outflows and determining recognition patterns, transparent disclosure of assumptions, methodologies and sensitivities is critical to meet Ind AS requirements on provisions and significant judgements.

In limited fact patterns, amounts paid in advance to secure future compliance capacity may require assessment as prepayments or other assets, with subsequent utilisation evaluated against the underlying obligation.

Our view:

EPR is likely to be the most consequential accounting development for producers arising from the scrappage policy. Early identification of obligating events, disciplined estimation of future outflows, and clear documentation of judgement will be essential to ensure robust and defensible financial reporting as the regime is implemented.

The EPR framework for end-of-life vehicles has been formally notified through the Environment Protection (End of Life Vehicles) Rules, 2025 and is effective from 1 April 2025. While detailed implementation guidance and operational mechanisms may continue to evolve, the legal framework itself is in force, and producers are expected to assess and reflect the accounting implications proactively rather than defer evaluation until full operational clarity emerges.

Bringing It Together

India's Vehicle Scrappage Policy is not merely an environmental or transport reform; it is a financial reporting trigger that intersects with core Ind AS principles around estimates, impairment, grants and provisions.

The scrappage regime can change the economics of holding older vehicles, affecting useful life, residual value and impairment assumptions. The end-of-life vehicles EPR regime (effective 1 April 2025) can introduce recurring compliance costs/provisions and greater estimation uncertainty for producers and bulk consumers. The quality of response will be defined by how deliberately entities:

- reassess the asset's useful life and residual value with consideration to the scrappage policy,
- document impairment judgements,
- distinguish price adjustments from government assistance, and
- prepare for EPR driven obligations and disclosures.

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