Steel recycle mandate for automakers on the anvil

Starting FY26, at least 8% steel used in vehicles sold 20 yrs ago may have to be reprocessed

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The environment ministry is likely to soon issue regulations that will mandate automakers to recycle a specified percentage of steel from old vehicles, starting from the next financial year, according to people familiar with the matter.

"We recently held a meeting with members of the Society of Indian Automobile Manufacturers (Siam). The final regulations are likely to be issued in the next 10 days," a government source informed.

The move, according to government officials, is a step toward "formalising" vehicle scrapping in the country and make automakers "active stakeholders" in the broader policy against air pollution.

India currently has just 70 registered vehicle scrapping facilities (RVSFs), as listed on Siam's website. With the impending regulations set to take effect in less than seven months, automakers will be pushed to make substantial investments, either by establishing their own RVSFs or partnering with third-party operators, the sources indicated.

The Ministry of Environment, Forest and Climate Change (MoEFCC) had earlier issued a draft notification on January 30 under the Environment (Protection) Rules, 1986, outlining "extended producer responsibility (EPR) for end-of-life vehicles".

Sources revealed that a Siam delegation, including representatives from Hero MotoCorp, Mahindra & Mahindra, Maruti Suzuki India, Ashok Leyland, JSW MG Motor, and TVS Motor, recently met with the environment ministry officials. Following discussions, the ministry agreed to provide some flexibility regarding the steel recycling mandate in the draft notification.

The draft notification stated that in 2025-26, automakers must recycle or recover at least 10 per cent of the steel used in vehicles placed on the market in 2005-06. Similarly, in FY27, the 10 per cent mandate will be for vehicles sold in FY07.

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THE ROAD AHEAD

The impact of steel recycling mandate on automobile makers in the next three financial years

Year	Passenger vehicles sold	**Likely impact:** Steel to be extracted from 8% of PVs sold 20 years ago	
2005-06	1,143,076	2025-26	**91,446**
2006-07	1,379,979	2026-27	**110,398**
2007-08	1,549,882	2027-28	**123,991**

Year	Two-wheelers sold	**Likely impact:** Steel to be extracted from 8% of 2Ws sold 20 years ago	
2005-06	7,052,391	2025-26	**564,191**
2006-07	7,872,334	2026-27	**629,787**
2007-08	7,249,278	2027-28	**579,942**

Note: The annual sales data has been sourced from Siam's annual reports

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Debtor days have fallen by 13.8 days since 2018-19

The increase in online payments, which can clear transactions in seconds compared to the days required for cheque payments, has contributed significantly to the reduction in the working capital cycle. Additionally, increased formalisation and government initiatives aimed at shortening payment timelines for smaller businesses may have further accelerated this shift, Choksey suggests. He believes the working capital cycle is only likely to improve further.

Data analysis from recent years shows a decline in every component of the working capital cycle since 2018-19. The raw material cycle has decreased by 1.5 days, and the finished goods cycle by another 0.5 days.

However, the most significant improvement has been in debtor days, which represent the time required to collect money from customers. Debtor days have fallen by 13.8 days since 2018-19. Also, companies are settling their debts faster, with creditor days down by more than a week.

These efficiency gains coincide with improved profitability. Profit growth for companies in the Nifty 500 index was around 30 per cent in 2023-24, against single-digit growth recorded during the previous year, according to the June 2024 Indian Strategy report from Motilal Oswal Financial Services, authored by research analysts Gautam Duggad, Deven Mistry, and Aanshul Agarawal.

However, the current earnings season, reflecting the first quarter of 2024-25, has been lacklustre, notes Satish Menon, executive director at Geojit Financial Services. Menon suggests it may take longer to discern the year's trend.

"We'll have to wait for the second quarter," he says.

Working capital can play a larger role in profitability during downturns, according to a 2014 study titled The impact of working capital management on firm profitability in different business cycles: Evidence from Finland by Julius Enqvist of Nordea Bank, Michael Graham of Stockholm University, and Jussi Nikkinen of the University of Vaasa. It found that "working capital management is relatively more important in low economic states than in the economic boom state."