

Scrap Recyclers Migrate towards Transparency under GST

- Metalworld Research Team

After initial headwinds, the goods and services tax (GST) roll out has helped scrap recycling units in the unorganized sector to migrate towards business transparency by availing input credit on the raw materials used for producing primary or secondary metals from base metals scrap. Many units have installed the programme and upgraded their information technology set up through engaging experts in this sector to guide them towards transparency. By availing input credit, they feel real ease of doing recycling business in India under the GST regime.

Earlier, however, these recycling units used to deal largely in cash to evade taxes and prepare their books of account for regular monitoring of taxmen. Many units in scrap recycling business used to ignore environment compliances for saving of direct or notional expenditures on plant and machinery for environmental protection. According to an estimate, around 90 per cent of units engaged in scrap recycling were dealing in cash with their labourers. Also, they used to sell their output in cash to avoid large withdrawals from banks for raw material

procurement and workers' periodic payment. With GST implementation from July 1, many units have invested in installing GST programme and engaged tax experts to avoid any leeway in their business.

GST benefits

In the pre-GST regime, metal scrap recycling units were paying central value added tax (CENVAT) of 5% in addition to applicable other taxes including import duty, excise duty and value added tax (VAT) to name a few. Of these, however, CENVAT claim amount was meant for refund. Scrap recyclers, however, claim that the government used to delay refund of CENVAT amount paid by scrap recyclers for years. While the intention behind this delay is unknown, the accumulation of the CENVAT amount resulted into the blockages of working capital. On this amount, however, scrap recyclers used to pay interest to lenders. Many units that operated with wafer thin margins, shut down their operations for want of additional credit from lenders. This has resulted into consolidation in scrap recycling business with only large players with deep pocket used to survive.

Post GST implementation, however, scrap reclining units have moved to transparent business practices by upgrading their technology for tax compliance. According to Rohit Shah, Managing Director of Perfect Valves, the scrap recycling business has migrated towards tax compliance. "Over 90% of units engaged in scrap processing have become tax compliant. The remaining 10% unit also are in various stages of tax compliance," he added.

Bright future

A recent report prepared by professional services agency KPMG forecasts India's demand for non-ferrous metals, including aluminum and copper to grow by around 8% over the next five years. The expected demand growth in the non-ferrous metals industry would be even better than the "healthy trend" observed in the last five years.

"Over 2016-17 to 2021-22, the demand for these metals is expected to grow by around 8% in line with strong economic prospects, thrust on manufacturing sector, healthy growth in key end-use segments further aided by rising usage intensity," the KPMG report



says. India had also registered strong growth in recycling of metals, a major step forward for an otherwise unregulated sector. It said over time, the share of recycled metals had increased considerably and was almost equivalent to the global level.

But KPMG warns that legislative intervention was required to contain the level of scrap imports that still dominated the globe. Globally, the non-ferrous metal industry faced a turbulent time owing to a number of factors, including the global economic growth slowdown at large, as well as the slowdown of the Chinese economy, in particular, along with the high raw material prices. But India went the other way. Strong resilience in the Indian economy had resulted in its non-ferrous metal industry outpacing the global trend. Apart from a strong demand base and future potential, India was rich in terms of raw material reserves coupled with a relatively low-cost structure of production, thereby providing huge opportunity for the development of non-ferrous metals industry in India.

That said, downstream products, such as copper wire and aluminum foils, were still being dominated by imports, as the downstream industry is relatively undeveloped in India.

China, with its sheer population as well as advancement of manufacturing, was the largest consumer of non-ferrous metals and majorly influences the

dynamics of the industry. But the recent slowdown in that country has significantly impacted the global industry in terms of supply and demand, trade, prices and profitability. The country accounts for 52% of the global aluminum consumption. In Asia, consumption showed a declining trend in Japan, but was counteracted by higher demand from India and the Middle East. The report said North America had also firmed up since the global financial crisis. Prices had recovered because of supply cuts in China and a healthy demand growth.

In India, with steady growth in demand, non-ferrous metals were being consumed in several emerging applications offered by defense, aerospace, hybrid and electric vehicles, railways, and more, requiring complex design (be it large aerospace parts or miniature structural components). However, lately there has been technological disruption in multiple industries, including metals, such as metal additive manufacturing or 3D printing, which offered the possibility of complex parts production at a faster pace and lower cost, the report observed. There were a number of industries which were increasingly using these technologies to revolutionize the manufacturing process.

A well-developed non-ferrous metals industry is vital for any developing country, as it provides important raw material to many industries that are the

pillars of economic development. With the increasing usage of these metals in several existing and emerging applications, coupled with new technologies, there is a paradigm shift that can change the way non-ferrous metals are consumed in the future.

Reform measures to support scrap recycling

With a slew of reforms undertaken by the Indian government, the end-use sectors of non-ferrous metals —automotive, electricals, packaging, consumer durables, railways, ports and inland waterways, roadways and renewable energy — were expected to experience a strong growth trajectory. However, certain metals were characterized by import, especially downstream products such as copper wire and aluminum foils, because of various reasons, including the undeveloped downstream industry, global competition and quality availability. During 2011-12 to 2016-17, the demand for aluminum posted a CAGR of 5.4% led by a healthy growth recorded by the electrical and automotive sectors, which constitutes 60-65% of the total consumption of aluminum.

Primary aluminum demand was generally met through domestic supply, but there was considerable import of downstream products from China and the Middle East. Many players in the aluminum downstream industry were suffering from a lack of proper infrastructure and technology to efficiently process the raw material into high-quality products. Significant capacity addition has taken place over the past five years due to implementation of various capacity addition plans by the major players. During 2011-12 to 2016-17, capacity has increased from 1.9 million tons per annum to 4.1 million tons per annum. Apart from aluminium, phenomenal growth was recorded in copper demand as well. Demand for primary copper grew at a CAGR of 14% over the past five years, owing to the robust growth in the electrical sector and consumer durables. Although India was a

net exporter of copper, there was a significant proportion of import of downstream products. Many players in the copper downstream industry faced challenges such as outdated technology, improper infrastructure, high set-up cost, high funding cost and lack of skilled professionals. During 2011-12 to 2016-17 copper imports, constituting mainly downstream products and alloys, grew at a CAGR of 15.4%. Demand for primary zinc in India was based on the growth of the steel market, which accounts for 70% of the total demand. It was mainly used in galvanizing and coatings of iron and steel to protect it from corrosion. During 2011-12 to 2016-17, demand for zinc grew at a CAGR of only 3%, mainly because of a surge in imports of galvanized steel.



In order to control imports, the government imposed a minimum import duty on certain steel products, in addition to a safeguard duty and anti-dumping duty. In 2016-17, India's imports of galvanized and coated steel fell by 47% compared to the previous year as a result of these supportive government policies. Other government initiatives, such as the Smart Cities Mission, modernization of railways and the construction of highways were expected to boost the infrastructure industry, which uses galvanized steel for durability and endurance.

Opportunities exist in aluminium recycling

India's demand for secondary aluminium will increase by 8-10% per year, mainly boosted by the country's rapidly-growing automotive industry. Secondary aluminium accounts for 30% of India's overall aluminium consumption of 3.3 million tonnes per year. In the past

six years, secondary aluminium demand has almost doubled to 1.1 million tonnes, of which some 90% is imported. By 2021, demand is expected to reach 1.5 million tonnes. In 2016, some 120,000 tonnes of aluminium scrap was generated in India, with the automotive and power segments together accounting for 75% of the total. India's domestic scrap market may be fast-growing but still has a long way to go, experts believe. There is largely unorganised scrap collection and insufficient awareness, leading to a major proportion of scrap going to landfill rather than recycling.

Meanwhile, new initiatives are underway to boost recycling - including the first car dismantling and depollution facility which is scheduled to be running before the end of this year, to be followed by the country's first car shredder. These were "baby steps to a future where you may abort scrap import dependency". Although India's domestic scrap industry is trying hard to modernise, this can be achieved only with regulatory helps.

Growth potential

Indian Metal Recycling Industry is set to register an annual growth of 11.4 per cent till the year 2020 and considering the growth potential, it needs immediate policy intervention, noted the Report 'Metal Recycling Sector: Contributor to National Wealth' published by Frost & Sullivan at the 'Metal Recycling Conference' organised by Metal Recycling Association of India (MRAI), an apex body of India's ferrous and non-ferrous metals recycling industry. The potential of Metal Recycling industry is not fully utilised and hence, there is more burden on primary production resulting in depletion of natural resources. A strong policy regime can not only turn the fortunes of this industry favourably by throwing up immense economic opportunities; but will also help convert waste into wealth for the nation. Today, India's annual scrap consumption is INR



750 billion (20.40 million tonnes) and it imports 6.48 million tonnes of scrap at an estimated value of INR 390 billion to become the world's third largest importer of scrap. With a CAGR of 11.4%, the sector is poised to take the consumption to 30.03 million tonnes by 2020.

Surprisingly, India's recycling rate is less than 20% where the world over, recycling has been accepted as a sustainable business model yielding higher revenues entailing saving the environment and tremendous amount of energy. "With a view to ensure the fast track growth of the industry, Metal Industry Association of India has sought a framing and implementation of Metal Recycling Policy duly supported by an 'industry-status' recognition. Metal Recycling contributes about two to three per cent to the Indian GDP. As the industry opens up and grows at a CAGR of 11.4 per cent, this will increase the contribution of Metals Recycling to the Indian GDP and ensure sustainable growth coupled with preservation of natural resources," said Sanjay Mehta, President, Metal Recycling Association of India (MRAI). He added, "When Global Recycling Industry generates an annual revenue of \$ 500 billion, India is lagging much behind. Government should immediately intervene and draft a Metal Recycling Policy to grant industry status to this sector and rationalise duty structures to make it a globally competitive industry." With this, the Government will be a net revenue earner and it will save the environment and energy. With a better flow of raw material in manufacturing through recycling of metals, the industry can thus help achieve Government its mission of Swatch Bharat Abhiyaan and Make in India.