

Refiners should be permitted to operate metal accounts with overseas bullion banks

Mr. Gautam A. Choksi, Executive Director, Hindustan Platinum

Hindustan Platinum Pvt. Ltd., is a six-decades old, LBMA accredited refiner for Silver and PGMs with customers over 50 countries across the globe. Its business activities include refining precious metals from a variety of sources, manufacturing value-added products such as electric contacts and catalysts and offering precious metals management services. In a well-articulated discussion, **Mr. Gautam Choksi**, shares his views on opportunities for Indian refiners both in India and overseas.



Briefly share about Hindustan Platinum Pvt Limited (core businesses, industry etc.)

Founded in 1961, Hindustan Platinum is a leading player in high purity precious metals and industrial products. The company is known for its unwavering focus on using state-of-the-art technology and providing exemplary service.

The company has diversified business units - Refining Services, Catalyst & Chemicals, Electrical Contacts, Nitro Technologies, and Engineered Products catering to various industries such as pharmaceuticals, petrochemical, oil refineries, glass, fertiliser, electrical equipment, jewellery industries, etc.

Hindustan Platinum refinery has London Good Delivery accreditation and has an established customer base in over 50 countries. Supporting its global footprint are its subsidiaries –Hindustan Platinum DMCC, UAE and Hindustan Platinum P.R. LLC, Puerto Rico.

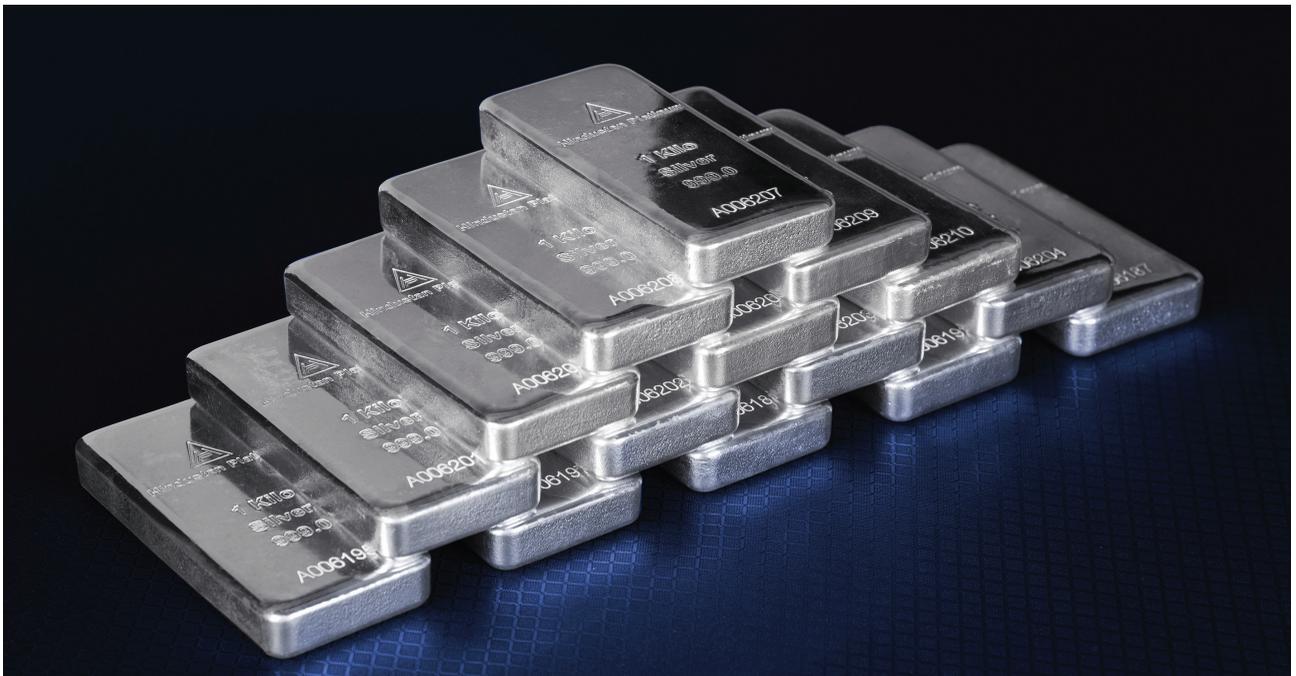
With six decades of operations, Hindustan Platinum has grown from strength to strength. Today, our team of over 950 multi-cultural and diversified professionals is firmly dedicated towards excellence and technological advancement in order to create value for our customers.

Refining Services- Talking specifically about refining of recycled gold and silver in India, the sector has remained largely in the hands of unorganised sector. Is it due to cost factors? Or is it due to insufficient understanding of the benefits by customers? Or faulty government policies? How can the share of organised sector in recycling of gold and silver be increased?

India has only a handful of refiners of meaningful size who have the technical and financial capability to compete with a global refinery. Over the years a lot of smaller refiners

have sprung up. These refineries in the unorganised sector may not be following the stringent environmental and health and safety norms which a larger refiner in the organised sector would be obliged to follow. Due to this his capital investment will be significantly lower and he will be able to offer seemingly much lower prices as refining charges. Also, a well-established organised refinery will have the equipment, laboratories, people and processes to ascertain and extract the maximum quantity of precious metals. Not to say that a smaller refinery is inefficient, but a larger organised player will have certain economies of scale from an efficiency perspective. So, it could be a classic case of being penny wise, pound foolish for a customer who goes to an unorganised refiner to get his metal refined. He may think he is paying less in refining charges per gram, but he may lose much more in terms of the precious metal quantity.

With India Good Delivery well under way and domestic refineries being subject to periodic audits by the exchanges, the organised sector will get a further boost and create awareness among the public at large.



What can government do to promote domestic refining and manufacturing?

Currently Gold loans are mainly offered to the players in the jewellery sector. A precious metal refiner/manufacturer needs to fund his working capital in terms of metal. So ideally banks should be permitted to extend metal loans not only for Gold, but also for Silver and PGMs to company's that have an underlying exposure. This is a method of funding followed globally by all precious metal refineries. It not only removes the asset liability mismatch but also acts as a perfect hedge. Armed with these risk management tools, a domestic refiner will be on a level playing field with other Global refiners. Since Indian banks may not be active in precious metal loans, Indian refineries should be permitted to borrow from overseas banks/entities that meet a minimum criteria, say operating as an LBMA/LPPM member.

Staying with refining services- How does a refinery such as HPPL compare and compete with peers from, say, a developed nation in dealing with recycled precious metals? Can India become a much larger player in offering refining services of recycled PM to the rest of the world? Is there a need for tweaking any regulation as recently there were reports of mishandling of recycled PM scrap containing hazardous material by unregulated refiners?

The refining industry in India has come a long way and have evolved significantly in recent years with technology, capability and capacity not only for silver but also PGMs. Estimation of precious metal content, refining capability and return of metal in a shortest possible time are the key attributes of a good precious metal refiner. Hindustan Platinum, being a London Good Delivery refiner is well equipped to handle different sorts of materials with focus on spent catalysts and different industrial materials. Our customer base now extends well beyond India to all corners of the globe, with over six decades of experience, we have expertise and capability to service our global customers. We have made significant investments in technology and ramping up our production capacities,

which will cater to the growing demand of our products and services globally. Hindustan Platinum's refinery is at par if not better than any major precious metal refiner/recycler. And the fact that we are competing and winning global tenders regularly, is a testimony to the fact of our capability, capacity and quality. Also, the trust that our customers bestow upon us by sending us repeated business motivates us further to go above and beyond what is required.

About a decade ago, all the gold that was imported in India was from overseas refineries. With the government offering a reduced import duty on Gold Dore, the domestic refining industry has thrived and now a significant portion of the imports are in the form of Dore. The same can be done for Silver and PGMs too. The imports should not only be restricted to Dore but to any precious metal bearing material. Needless to say, that the strict guidelines should be in place to prevent any misuse. Further refined precious metals should be freely exportable so that a domestic refiner can focus on what he does best, i.e., extract precious metals. Refineries should also be permitted to operate metal accounts with overseas bullion banks as very often the refining customers may prefer a metal credit in an unallocated metal account instead of physical return to them.

Globally refining is offered as a service with the refiner focussing only on recovering highest quantity of metal in cost effective way. In India, modern refiners have evolved a new business model wherein they purchase the raw material- be it dore or scrap. As a result, the competitiveness is decided based on the financial capabilities rather than technical excellence. Is it a challenge to operate as a pure-play refiner in India? What is your view?

A pure play refinery would ideally be only doing toll refining for its customers and would not require large working capital. However operating a business model like this would be challenging, as many refiners often offer certain

value added products like coins, minted bars, industrial products, etc. At HP, we offer complete solutions to our customers for recycling and supply of products as required by them. So if a customer wanted a manufactured product out of their refined metal, we would provide a one stop shop for the same. Likewise if a customer was looking to sell the refined metal to us, we would offer competitive terms for outright purchase.

India being a net importer of gold, it is only natural that we integrate backwards and source dore as a raw material rather than importing refined gold. Hence, the Indian refining industry purchases dore, refines it and then sells that gold domestically. So, this is not considered recycling per-se because it is an outright purchase of dore and the ultimate gold is sold to Indian consumers. Certain overseas customers may be interested in only recycling of their precious metals and may not be interested in selling the metals as they may want their metals back to use for their process. This is the case with majority of the industrial consumers where they use metals as catalysts in their production processes. In such cases the metals needs to be refined and returned to them..

Financial capability will certainly play an important part if metals have to be purchased and sold by the refinery. International accreditations provide some comfort to large mining/industrial companies that want to send metal for toll refining only. To overcome the lack of international visibility, the Indian refiners have offered extremely competitive refining and payment terms to secure a consistent feed of raw material/dore.

Electrical contact is another business segment of HPPL. Is there a scope for scaling up the manufacturing of electrical contact? What could be the new opportunity for electrical contacts offered by new programmes of government of India such as ‘electrification of automobiles using renewable power’?

Hindustan Platinum manufactures electrical contacts such as silver bimetal rivets, profiles, contact assemblies,

brazing alloys, silver wires and silver sheets which are used for low voltage and medium voltage switchgear application, wiring accessories, appliance industry, automotive, railways, defence, etc. We are also a preferred supplier for most of the leading names in switchgear and other industries across the globe.

In the domestic market, for the last three years, the contacts business has grown by 6-8% each year. Despite the infrastructure push, the need for contacts will take a long time to realise. COVID-19 too impacted contacts business in a way that many investors have stalled their investments and many are still reeling under the impact, resulting in the overall decline in cash flow to the industry and the real estate sector. However, citing the growth in the international market, we have started planning our capacity enhancement and we are doubling our production capacity mainly to cater to the need of international markets.

Certainly, EV infrastructure development in India will create new opportunities for contacts business as the consumption of silver for EV will come in demand once the EV equipment manufacturing starts on a larger scale in India. Seeing the current pace of development, in my opinion, it will take another five years time to have EV infrastructure in place.

Recently HPPL acquired the electrical contacts manufacturing plant of ABB located in Puerto Rico. What is the motive? Can India compete in global markets with giants from Europe and China? If so, what are the competitive levers?

Embarking the journey of a new era, Hindustan Platinum acquired ABB’s Humacao electrical contacts manufacturing Plant at Puerto Rico, hence strengthening our international footprint.

The Humacao, Puerto Rico plant has been manufacturing electrical contacts for the last 50 years in the state-of-the-art facility. ABB had signed a business contract with

Hindustan Platinum on the purchase of the electrical contacts manufactured from Humacao Plant for long term.

With a progressive approach and innovative spirit, Hindustan Platinum has had a rapid stride of growth winning confidence of customers globally. Hence, the addition of the Humacao Plant is of critical strategic interest as it is going to be the second contact manufacturing facility that will cater to the growing demand of the North American and Latin American markets. Also, to mention the Humacao Plant gives us a great opportunity and ability to integrate and align people, best technology, skills and processes and that will get reflected in the success of reaching our stated goal in the contacts business.

Market observers believe that recycling of silver jewellery increases with higher silver prices. In 2020, price of silver went up sharply to unprecedented levels. Did you see any increase in scrap silver flow into the market?

The volatility of silver prices has been extremely high. In March 2020, during the pandemic, silver prices reached a low of approximately Rs 35,000/- per kg and subsequently in August 2020 the price reached a high of about Rs 75,000/- per kg. In April 2011, when silver got close to \$50/oz, the domestic prices shot up to approximately 75,000/kg as well. A lot of investors who had invested at a higher price had been waiting patiently for prices to recover. Now that the prices have increased, they are looking at selling or liquidating their old holdings. So, we did see a lot of silver that was purchased eight to ten years ago come back in the market for refining and recycling.

International Bullion Exchange would be a reality soon. As a globally accredited refiner, what new opportunity do you see in IBE?

Currently Indian refiners or traders can hedge their exposures on the domestic exchanges in INR. IBE will allow market participants to hedge their exposures at international prices in the Indian market. And with increased participation from the global bullion banks, it's

only natural for the market and liquidity to get deeper and better. Due to this market participants should be able to hedge basis the international rate in India. Indian refiners can make and take delivery basis the international price. Where there are restrictions for the export of metals (refined gold or silver bars), there could be a business model whereby imported precious metals in the form of dore or scrap could be imported, and the refined gold could be tendered as delivery on these exchanges without the risk of the duty. This would encourage the domestic refining industry and help refiners focus on what they do best, that is refining and extracting the precious metals out of dore/scrap.

It's also important for us as in Industry to promote and encourage domestic refineries for the India Good Delivery standard. A few gold refiners have already been accredited and empanelled as Good Delivery on domestic exchanges. It is only a matter of time till Silver refiners also follow suit. Since these bars will be sold and traded at par with the LBMA accredited bars, all Indian refineries need to adhere to the strict standards in terms of no negative tolerance on weight and purity and also an acceptable finish. Responsible sourcing guidelines also need to be followed to maintain the integrity of the supply chain. If these standards are not met, consumers may go back to demanding London Good Delivery Bars and be ready to pay a premium for the same.

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Mr. Gautam A. Choksi has been in the company since 1997 and cherishes a laudable experience in the field of Accounting and Finance. He has obtained the Bachelor of Science in Business Administration from Bryant University, USA with majors in Accounting and Finance. In 2011, he completed the Post Graduate Program in Management for Senior Executives from Indian School of Business, Hyderabad. Over the years, he has played a propelling role in setting up the risk management desk, and offered his expertise in steering solid relationships between the company and domestic and overseas lenders, suppliers, etc. Mr. Gautam Choksi represents the company at London Bullion Market Association (LBMA) and London Platinum and Palladium Market (LPPM).

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