

RECENT HIT

Finding riches in rags: A Hyderabad startup is digitising kabadiwallas. Coca-Cola et al. swear by it



Aerial view Waste Management with cityscape background at dusk for Environment Reservation.

Synopsis

In India, waste management is a USD100 billion industry largely informal, and cash driven. Recykal, a B2B tech startup, is trying to disrupt waste management through a digital marketplace for the sale and purchase of trash. Recykal is helping Coca-Cola, Marico, Nykaa and others become plastic-neutral. It has prominent investors like Morgan Stanley and Singapore-based Circulate Capital, Pidilite among others.

“Kantabai boli Bumbai mein sabse jyada paisa kachre mein hai” (Mumbai riches are in the garbage). Remember Ganesh Gaitonde, a mafia don played by Nawazuddin Siddiqui, in Sacred Games?

In reel life, Gaitonde understood what scraps can get him. And in real life, a Hyderabad-based B2B tech startup has made it its business model.

With the power of tech, **Recykal** is changing India's waste-management business, which is largely informal, cash-driven and fragmented with multiple middlemen. The startup is working to revolutionise the conventional waste-recycling business through a managed marketplace for scrap trading on a digitised platform.

What could be a game changer for the company is its deposit refund scheme where a minimum amount (INR1-INR2) will be charged from customers buying FMCG products like chips, chocolates, biscuits, and others. On returning the empty packets they could get refund.

Recykal is helping local *kabadiwallas* (scrap dealers) go digital. They can trade scrap through an app and make extra profits by weeding out the middlemen. However, the scrap dealer needs to have a GST registration to access the marketplace. It makes profit through transaction fee charged for every transaction.

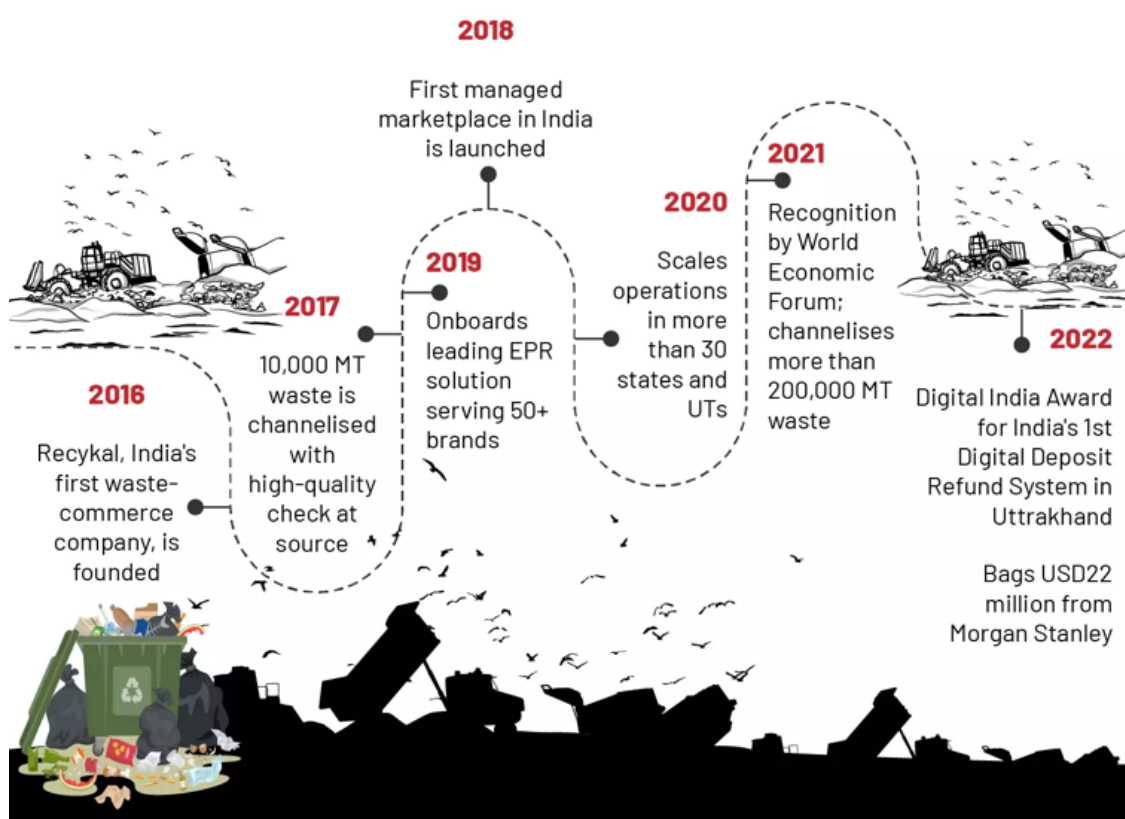
Recykal hit the spotlight after it bagged a USD22 million series A funding from Morgan Stanley in January 2022. The company's top line transitioned from INR63 crore in FY20 to INR745 crore in FY23, a 12x jump. The company collected 88% of its operating revenue from the sale of waste/scrap goods in FY23. It is not looking to raise more funds for now.

The disruption

The brain behind the company is **Abhay Deshpande**, a seasoned entrepreneur who founded Recykal in 2016. For the first two years, the company remained lowkey to learn the ropes of the waste-management business to the extent that Deshpande and his team spent several days at dumpsites talking to several stakeholders. There were several failures before the team finally came out with a waste-management digital solution to prevent any leaks.

It launched the country's first marketplace in waste management in 2018 and that remains the soul of the business. It just provides a tech platform to producers, waste generators, recyclers, and different stakeholders in the waste-management industry and is not involved in recycling processes. The company offers circularity and sustainability solutions in categories such as plastic, paper, metal, e-waste, tyre, and batteries.

Recykal at a glance



From the point the waste is collected from our homes till it reaches the recycler, it changes hands six times – the local *kabadiwala*, the small aggregator, the baler (who converts waste to bale), the large aggregator, the trader, and the recycler. For example, the largely traded PET bottle is sold at a margin of INR15-INR20 per kg by a *kabadiwala* and it ends with a recycler earning a margin of INR40 per kg.

Recykal has been able to cut down two layers in this chain to bring in efficiency. The digital platform has led to the elimination of large aggregators and traders. Balers can now directly sell to recyclers, leading to a margin improvement of 3%-4% at each level. The company started working with small aggregators for the last two years and is now looking to get balers on board.

Deshpande says he wanted to bring a digital disruption into waste management.

“None has actual data about how big the opportunity is and mostly extrapolation is done. The general perception is that people involved in waste management are ‘mafias’ which is not true though it is very difficult to stay clean in this business. Our idea was to bring transparency and accountability in the business,” Deshpande tells ET Prime.

In the country, where 65 million tonnes (MT) of waste, including 3.4 million tonnes of plastic waste, is generated annually and less than one-third recycled, Recykal has channelised 700,000 MT of waste in 2022. The clients include Coca-Cola, Johnson & Johnson, Marico, Bisleri, Castrol, Glenmark, and Nykaa among others where it serves as a bridge for brands to become plastic-neutral and reduce their environmental impact.

The platform

Deshpande makes it clear that Recykal is not an Amazon-like marketplace, nor a recycling company but a technology company solving the waste problem in the country. In simple terms, it is a seller for a buyer and a buyer for a seller and there's no direct contact between the buyer and the seller.

"We're a managed marketplace, we create supply integrity for the fragmented supply chain for waste and provide transparency and traceability for categories such as metal, e-waste, plastic, and paper. We provide a consistent supply to buyers pan-India and transactions are vetted by sourcing recyclables from GST-compliant sellers," according to the company.

Recykal has 80%-85% rejection of applicants wanting to onboard the marketplace in the absence of proper compliances like GST. "*Dhanda kam karenge par saaf karenge* (we will do less business but stay clean)", says Deshpande, who has a team of 40 along with four co-founders.

Companies can trace the journey of the disposed of waste with Recykal's digital-tracking platform thus helping them fulfil their Extended Producer Responsibility (EPR) requirements. For example, if a Coke bottle after being discarded was collected and recycled as a shoe or a T-shirt and did not end up in a landfill or ocean.

There are offline processing centres run in partnership with the municipal corporation. The local bodies provide them with land, sheds, and waste for processing while the company invests in infrastructure, waste sorting machines, AI and ML systems, etc.

The traceability of waste offered by the Recykal digital solution in every segment is what attracted Morgan Stanley and Singapore-based Circulate Capital as investors. Other investors include Triton, Pidilite Industries, and Murugappa Group.

Rob Kaplan, founder and CEO, Circulate Capital, says Recykal offers a digital platform that could solve some of the transparency and traceability issues around waste recycling.

“The challenge is to get where the material comes from and how it moves and there's a risk across the board because of that. So, we were particularly interested in and looking for digitalisation platforms and Recykal is far ahead with its digital solution,” Kaplan tells ET Prime.

His experience in meeting sustainable packaging globally for Walmart in the US came in handy in picking the right firm for investment. Kaplan says the fund is excited to take the Recykal business model to other countries where waste management is a big issue such as other Southeast Asian or Latin American nations.

Circulate Capital is a Singapore-based investment management fund investing in high-potential companies that divert plastic waste from landfills and toward a circular future. It is backed by capital from large corporates such as Unilever, Danone, Coca-Cola, Procter & Gamble and Dow among others.

The business model

Recykal has two streams of revenue. On every transaction on the marketplace, it gets a commission ranging from 3% to 10% (for a truckload of INR2 lakh-INR5 lakh). It also works with several brands that have EPR obligations of waste collection and get money for the services.

Other revenue streams being looked at include a plastic credit scheme, wherein national brands can buy plastic credit to meet their targets; and a circularity platform, where companies can track the journey of waste produced by them.

Deshpande explains that about 96% of waste-management companies in the country run on money from the government for waste collection and processing while the rest comes via CSR grants from the companies.

“We wanted to create a private business not dependent on the government. We don't do any commercial transactions with the government but in partnership by providing them solutions. We are investing big time in new technology solutions and last year we took a lot of risks. In fact, we suffered INR2 crore less loss compared to what we internally calculated,” explains Deshpande, adding the company should comfortably break even with a very good Ebitda by FY25.

The company posted INR25.8 crore loss in FY23 against INR1.26 crore profits in FY22. According to data-tracking platform Fintrackr, Recykal's Ebitda margin and ROCE worsened to -3.01% and -16.32%, respectively, in FY23. On a unit level, the company spent INR1.04 to earn a rupee of operating revenue.

Recykal financials

	FY21	FY22	FY23
Operating revenue	61	190.5	745
Total expenses	60	189.6	773.4
Profit/Loss	1.3	1.26	-25.8
Cash from operations	-11	-17.51	-64.6



Figures in INR crore

Sources: Fintracker

 ETPrime

What makes Recykal unique

It's the technology, an experienced team, and the appetite to take risks.

“There are many startups working in the recycling business but the benefit we have is that as a third-time entrepreneur, I have a better appetite to take risks and fundraising capability. It is not a game that anybody can build, it needs a lot of patience and self-control to not do shady transactions without compliance like evading 18% GST. Compliance is a non-negotiable thing in our business,” says Deshpande.

Recykal is his third startup. Previous ventures include Malamall.com, an online marketplace for ethnic wear brands set up in 1998; and in 2007, a software-as-a-service (SAAS) company called Martjack, a flagship multi-channel e-commerce platform with companies like Pizza Hut, Walmart, and Future Group. In 2015, Deshpande sold it to Singapore-based Capillary Technologies.

Keeping in mind India's 1.4 billion population, Deshpande says every waste sector is a multi-billion-dollar opportunity and several companies like his are needed in the waste-recycling business.

Kaplan of Circulate Capital says there are few other companies providing digital waste-management solutions, but Recykal stands out with its strong portfolio of tech solutions, funders, and traction among customers.

What Recykal offers



Sources: Company

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The game changer

It is the Deposit Return System (DRS) that the company calls the biggest game changer for them. A pilot project was launched in Kedarnath last year, collecting 1 million bottles that would have either gone into the river or dumped in the hills. It is akin to the system prevalent in several western countries where one pays a deposit while buying a product like a beer can and gets a refund on returning the empty can.

Deshpande feels that the DRS holds the key to the country's plastic management and littering problem. Recykal has entered into a contract with the Goa government for implementing DRS in the state for waste such as plastic, multi-layer plastics (MLPs), metal and glass.

"Every brand will put a QR code and will open an escrow account and suppose 100,000 bottles are sold in Goa, then INR2 [will be the] charge per bottle for DRS. A distributor will give INR2 lakh to the brand, the distributor will take the same amount from the seller and then the consumers, who will get [it back] through cash, UPI," Deshpande elaborates.

Around 2,000 collection points in Goa are being set up across all petrol pumps where people can put bottles in machines and get the deposit money back. Manual options will be there as well.

Key tech startups in waste recycling



The challenges

Like every business, there are challenges as Recykal expands its wings to different sectors and caters to company-specific needs. One of them is the diverse nature of the interface which includes chief sustainability officers, recyclers, traders, urban local bodies, NITI Aayog, state governments, the consumers, and the retailers. Perception issues related to the waste-management business continue to be a stumbling block.

Circulate Capital's Kaplan says that there are thousands and thousands of recyclers who have been operating locally, informally, and inefficiently. This is one of the biggest challenges holding back the recycling supply chain in India.

"What Recykal is doing is bringing a degree of formality through its traceability software and a platform that can help improve efficiency and drive away extreme fragmentation to enable buyers and sellers to connect more freely," says Kaplan.

He, however, agrees that as the company scales its operations, there will be new challenges and Recykal needs to evolve from a compliance tool to something that creates business for its customers. He feels that evolving frameworks around the recycling business are dynamic in India and the company needs to adapt to them to meet the requirements of its customers.

"I think one example of that has been how the EPR system has evolved in India. Another area of concern would be the integrity of the data that they are managing as they increase the scale of operations at marketplace," he adds.

(Graphics by Sadhana Saxena)

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