

M/s. Khandelwal Extractions Ltd.

Appellate Authority for Advance Ruling — Uttar Pradesh

Order No. 02/AAAR/12/2018 dated 12.10.2018

Q Questions Before the Authority

- Whether Mahua De-oiled cake/ De-oiled Rice Bran, being used as an ingredient of Cattle Feed, Poultry Feed and other animal feeds is 'Waste generated' during the Solvent Extraction process?
- Whether the applicant is eligible to get entire tax input credit of GST paid on purchase of Mahua Oil Cake/Rice Bran Oil cake used in the manufacture of solvent extracted oil?

F Facts

The applicant is engaged in the business of purchasing Mahua oil cake and Rice Bran for the extraction of oil through a solvent extraction process. During this process, they produce solvent extracted oil as the primary product and de-oiled cake as a by-product. The applicant sought a ruling on whether the de-oiled cake constitutes 'waste' and the extent of their eligibility for input tax credit on the raw materials used.

H Ruling

Classification of de-oiled cake as waste	Not waste; it is a commercially viable product.	The authority determined it is a by-product, not waste.
Eligibility for input tax credit	Partially allowed; reversal required for exempted supplies.	Reversal required for de-oiled rice bran cake (exempted); credit allowed for de-oiled mahua cake (taxable at 18%).

The Appellate Authority ruled that the de-oiled cakes are not waste but are commercially viable products generated during the manufacturing process. Consequently, the applicant must reverse the input tax credit attributable to the supply of exempted de-oiled rice bran cake, while they are entitled to input tax credit on the supply of de-oiled mahua cake which is taxable at 18%.

R Reasoning

The authority reasoned that the de-oiled cake is a **commercially viable product** rather than waste, as it undergoes further processing and is sold for consideration. Relying on the principle that taxing statutes should be interpreted to prevent the misuse of input tax credit, the authority applied Section 17(2) of the CGST Act, 2017. It concluded that since the applicant manufactures both taxable and exempted goods, they must reverse the input tax credit proportional to the exempted supplies. Furthermore, it determined that de-oiled mahua cake is not classifiable under Chapter 23 and is subject to a **GST rate of 18%** under the residuary entry.

P Provisions Relied On

Section 17(2) of the CGST Act, 2017

Section 16 of the CGST Act, 2017

Section 2(92) of the CGST Act, 2017

Notification No. 07/2018-CT(R) dated 25.01.2018

Notification No. 01/2017-CT(R) dated 28.06.2017

! For the Practitioner

This ruling clarifies that by-products generated during a manufacturing process that are sold for consideration are not 'waste' and are subject to GST provisions. It reinforces the requirement to **reverse input tax credit** under Section 17(2) when a taxpayer deals in both taxable and exempted supplies. Practitioners should note that the classification of specific de-oiled cakes depends on their actual usage and marketability rather than mere nomenclature.

Source

Summary prepared from the published order, which is a scanned document. It is a reading aid and not the authority: where the two differ, the order governs. Verify every provision against the original before relying on it.

Original order: www.gstcouncil.gov.in -> up_aaar_02_2018-19_12.10.2018_kel.pdf

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