Content

01 WHITE PAPER

02 ASSESSMENT OF CREDIT LIMITS

03 RELATED PARTY TRANSACTIONS

04 VALUATION OF STOCK

05 GENERAL TRADE WELFARE
Apprehensions and Repercussions

1. No concession on charges
   Being a low margin business, concession on charges play a vital role in making the business financially viable.

2. Higher collateral security
   Stringent and unrealistic requirement of collateral security will not be possible and may lead to diversion of funds to build collaterals.

3. ECGC Cover
   The exposure under WTP which was available till 2014, is now sealed. The government needs to reinstate the same for banks to support the trade.

4. Supply of credit limit
   To carry out business smoothly and meet existing trade obligations, banks should not restrict the credit limits.

5. Down gradation of trade
   In view of spike in LIBOR, spread in international cost of funds is low, Therefore, outlook of the trade should be Neutral / Growth for financial costs to be viable.
Banks should consider the following before making any decisions:

- Performance of the company & its business model.
- Companies availing lower PCL and higher PSC limits should be given certain relaxations.
- ECGC has reduced the cover under whole turnover policy from average of 65% to 50% in the last 6 months for the sector.

Banks should take up the matter with ECGC.

Mayank Bajaj, 07-May-18
# Assessment of credit limits - II

## Council’s recommendation to banks and members

<table>
<thead>
<tr>
<th>Data Analysis</th>
<th>The council will provide critical data analysis at regular intervals, on key observations of the trade that will facilitate banks to assess industry scenario.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediation Body</td>
<td>Formation of an informal arbitration body consisting of bankers, GJEPC and BDB members to be formed to find fair resolutions for NPA management, recovery and disputes.</td>
</tr>
<tr>
<td>Fair collateral security</td>
<td>Quantum of collateral security and concessions should be based on the credit rating, performance, account operations, industry scenario and other external factors.</td>
</tr>
<tr>
<td>Credit Risk Mitigation Team</td>
<td>Banks should set up a long term credit risk investigation team to track, monitor and provide intelligence information about trade members, to take informed credit decisions</td>
</tr>
<tr>
<td>My KYC Bank</td>
<td>Insist all members to register under My KYC Bank for better information facilitation and transparency for the banks.</td>
</tr>
<tr>
<td>AIDPMS</td>
<td>The Government and RBI is recommended to implement an Advanced IDPMS code for banks, so that advance remittances can be tracked and multiple payments can be avoided.</td>
</tr>
</tbody>
</table>
Related party transactions – I

**Necessity for Associate Party Transactions**

<table>
<thead>
<tr>
<th>Transparency</th>
<th>High level of trust and transparency is required to avoid any manipulation and safe keeping of inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Reach</td>
<td>Companies in India are primarily looking after manufacturing, while their associates in other countries are looking after sales and marketing.</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Being a low margin business, Diamantaires aim at integrating processes right from sourcing of rough diamonds to marketing of polished stones, to maximize profits.</td>
</tr>
</tbody>
</table>

**Bankers concerns**

<table>
<thead>
<tr>
<th>Related Party Transactions</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Genuineness of transaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Transparency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Long trade cycles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Diversification of funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. No realization if declared NPA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Suggestions**

All related party transactions bank thru

**Repercussions**

<table>
<thead>
<tr>
<th>Related Party Transactions</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Delay in receipt of parcel</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Increase in transaction cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. No ease of doing business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Increase in bank charges</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Related party transactions – II

Council’s recommendation to banks and members

For related party transactions, it is proposed to send the goods directly to associates and allow 10 days time for the bank thru documents to be accepted / signed by the buyer. The bank should treat this as a bank thru transaction / document, which will also ease out the issue of delay in parcel.
Valuation of stock

Concerns in stock valuation

Accuracy of valuation
Operational complexity
Lacking audit trail
High cost of ERP systems
Difficulty in valuing rough and coloured stones
Qualification in audit report

Council’s recommendation to banks and members

- **Third Party Valuation**: Council to engage a panel of independent valuers and also decide the cost of valuation.
- **Intervals**: Depending on the size of the business, its performance and creditworthiness, an independent valuation to be carried out periodically, at least once a year.
- **Systems Audit**: Council to encourage the use of ERP systems to track movement of stock.
- **IFRS / IndAS**: Adoption of applicable accounting standards to meet all reporting compliances.

Factors to be considered

01. Cost of external stock audit
02. Time for completion of stock valuation
03. Skill and competency of the valuer
## Everyone has a role to play in mitigating risk - I

### Trade

- To register themselves on MyKYCBank.
- Companies to timely and proactively approach lenders at an early stage to mitigate liquidity / credit risk.
- To ensure total transparency in exchange of information and business operations with the bankers.
- To adopt ERP / other stock maintaining tools for valuation of inventory.

### Banks

- Since the recent defaults are not due to business failures and there is favourable growth and robust demand, banks should shift their outlook to “Neutral” or “Growth”
- Set up a long term credit risk investigation team to track, monitor and provide intelligence information about trade members, to take informed credit decisions
- Assessing limit in Dollar terms to insulate an exporter from exchange fluctuation in lines with the RBI circular.
- To inform GJEPC about defaulting members and share critical information periodically, so that necessary actions can be taken
- Provide gold card benefits to eligible entities
Everyone has a role to play in mitigating risk - II

Government

- Interest equalisation scheme to be extended to the entire industry and not only to SMEs.
- Funding the SME sector and smaller manufacturers and traders.
- To provide reforms and incentives to promote the trade, ease of doing business and reduction of paperwork.
- To enable a job work policy for diamond polishing, which is a practice followed globally. This is also one of the reasons for business moving to China.

Government bodies

- The RBI should remove the ceiling on the number of DDA accounts i.e. currently 5 banks.
- ECGC should provide adequate export credit insurance cover to protect the interest of the trade and bankers.
- The GST council is requested to look into the release of working capital that is blocked due to GST.
- The RBI is recommended to implement an Advanced IDPMS code for banks, so that advance remittances can be tracked and multiple payments can be avoided. Also, the payments reflecting in the existing EDPMS system should be updated timely.
General trade welfare

Our approach – initiating positive change

Data Analysis
- The council will prepare monthly / quarterly reports on key data points, observations and major developments in the industry, which will be available to all stakeholders especially the bankers.

Eliminate fictitious companies
- The council will individually analyze data related to only exporters and importers in the trade, which will help eliminate entities not involved in the Gems and Jewellery trade.

Seminars and workshops
- The council will organise webinars, conferences, open house discussions and actively participate through platforms like - Ted Talk, to give an insight of the trade to all stakeholders and help in solving trade related problems pertaining to Banking, GST, RBI guidelines, ECGC matters etc.

Feedback mechanism
- An email address will be set-up, to which the members can send their opinions, suggestions, queries and complaints.
- To conduct half yearly meetings with bankers to exchange critical information, understand and address their issues.
Thank you

For any feedback please contact

Bankers: bankershelpdesk@gjepcindia.com

Members: membershelpdesk@gjepcindia.com