RECORD NOTES OF DISCUSSION HELD AT

DIAMOND, GEM & JEWELLERY BANKING SUMMIT-2014

ON 28TH JUNE, 2014

AT CRYSTAL ROOM, HOTEL TAJ PALACE, MUMBAI

Inaugural Session:

At the outset, the esteemed Chief Guest, Dr Gurdial Singh Sandhu, Secretary – Financial Services and Guest of Honour- Shri S.S. Mundra, Chairman, Bank of Baroda and Smt. Arundhati Bhattacharya, Chairman, SBI were escorted to the dais and were presented bouquets.

Shri Vipul Shah, Chairman, GJEPC welcomed the Chief Guest, Guest of Honour, present leading bankers, industry colleagues and media. He mentioned that presently, corporate governance, compliance and risk management are words which have become an integral part of our business operations. Compliance has taken the front seat and business decisions are now driven more out of compliance & professional ability to comply rather than the ability to take risk. He urged that banks develop their own risk management systems remaining close to the market and the business where it happens to mitigate their risks for high value product like ours. Shri Pranay Narvekar, Partner, Pharos Beam Consulting, LLP, welcomed everyone and made a presentation for setting the context for the discussion for the Banking Summit,2014. He gave a brief background on key action points of the 1st edition of Banking Summit held in the year 2013. The key action points for the present summit, overview of the diamond and gold jewellery industry, the price movement of both rough and polished diamonds in the international market, expectations from the diamond industry in 2014 were highlighted in his presentation. In his closing remarks he stressed on the fact that industry and the banks need to work together to rebuild the trust between the two.

Shri Anup Zaveri, Convener – Banking, Insurance & Taxation Sub-Committee – GJEPC stated that the diamond industry has seen a healthy first half, with some price increases in the cut & polished diamonds helping to boost their company's profitability. The pickup in sales also enabled companies to reduce stocking levels. In the gold jewellery sector, on the other hand, with the recent election bringing in a stable government, the consumer sentiment has improved and demand growth is also stabilising. With the industry, working in close cooperation with the government, banks and insurance companies, we all can resolve the mutual concerns and identify ways to mutually support the continuous growth of this industry.

Shri S.S.Mundra, Chairman, Bank of Baroda applauded the efforts put in by the GJEPC in organizing the 2nd edition of Banking Conclave and stated that timing of the Summit is apt considering the current economic scenario of the country. He mentioned that industry is an integral part of Indian economy, contributing significantly in the country's GDP and has been providing livelihood to close to 3.5 million people. According to him, this USD 35 billion industry has the potential to grow till USD 50-55 billion and USD 40 billion by 2015 in the international and national market respectively. It has full potential to attract Foreign Direct Investment and its strength lies in the handmade jewellery segment. He mentioned that post 2008 global economic recessionary period, many market events happened in the industry which led to fall in demand for the gems and jewellery items across the globe, based on which a number of business houses went for expansion and acquisition activities. As direct fallout, in the last few years, intermingling between gold and diamond jewellery has been witnessed which has led to unsavoury issues of interest arbitrage and affected the cycle of requirement of working capital. With an objective to control the Current Account Deficit (CAD, the Government of India had to introduce certain key measures which included the introduction of 80-20 scheme for gold import into the country which further aggravated the situation. Based on a strong impression in the bureaucracy that Cut & Polished diamonds, a key segment of the industry is an element of round tripping in the country the import duty of 2% on cut and polished diamond imports was introduced. Post introduction of 2% import duty on the same, the import of polished diamonds have shown decline which strongly supports that there was round tripping in this sector. He also expressed his confidence that now there has been a clear recovery sign in the key markets of gems and jewellery items i.e. USA, Europe etc. This will further boost the demand of these products in the global market and due to change in lifestyle of Indians, the demand will also show positive signs in the domestic market.

On the other side, he also expressed his scepticism on the figures of value addition being achieved by this industry and its net foreign exchange earning, due to discrepancy in various sources of statistical data on exports and import of gems and jewellery items. In his opinion as of today, a huge trust deficit has occurred between this industry and Government of India (also bankers). If this is one industry where trust is the basic foundation of working between trade and financial institutions, the collective challenge currently is to uphold that missing trust. To ensure the reduction in cases of NPA, ECGC too has now taken certain required steps. Industry while handling both exchange and commodity risks needs to build that lost trust factor with the bankers and Government by becoming more transparent in handling their day to day business activities. He expressed his concern that funds procured from banks by exporters are utilised in other sectors like real estate etc.

Smt Arundhati Bhattacharya, Chairman, SBI too applauded the industry's efforts in bringing Government of India, all leading bankers and traders under one roof by the Council and addressing the current banking issues of the country. She mentioned that State Bank of India has always been the key financial partner of this glittering industry and strongly feel that it has full potential to grow in both national and international market. She strongly opined that due to bad practices being followed by certain unscrupulous elements in the industry a mistrust has been created in the banking segment. At present, the entire global banking system is facing challenges and undergoing change where the requirement of regulatory compliance is very high which needs to be followed by all Indian industries including gems & jewellery. The procedure of transparent money transferring in business need to be strengthened by the industry. In lieu of changing of guidelines in the international banking system, the Indian financial institutions too need to adopt and implement the same in the country. She stated that this industry which initially started with the importing and exporting diamond business has now been integrated itself with the studded precious metal jewellery business. Industry needs to update the bankers on the business model of their different segments like diamond, jewellery and gemstones and also manufacturing, wholesale and retail. The transparency in fund utilization too needs to be addressed in these key segments. Trade too needs to understand the challenges being faced by the bankers and their situation in handling the same.To control the CAD, Government of India within a short span of time introduced the new 80:20 import guidelines. However those measures should have been implemented properly to address the requirements of all forms of business. Government too along with the bankers need to create opportunities for liquidity to avail the opportunity of gold available in the country through gold deposits and allow them to be considered under CRR and SLR. She also opined that banks have to make a provision for 25% of unhedged exposure of their clients for which they have made representation to the regulatory authorities. Industry needs to be more complaint to the banking norms. In the end, she mentioned that Industry needs to practice and implement 3Cs efficiently – Confidence, Corporatization and Collateralization.

Esteemed Chief Guest, Dr. Gurdial Singh Sandhu, Secretary – Financial Services thanked the Council for inviting him as Chief Guest for the Banking Summit which is an excellent and wonderful opportunity for all representatives of Government, banks and trade to learn each other's perspectives. He mentioned that he had joined RICO of Rajasthan in the year 1991 when 1st export promotion park was inaugurated there at Jaipur. He strongly stated that looking into the current global banking challenges, the industry needs to adopt international banking practices whole heartedly which will further help them to grow in the international market. In the tough economic scenario and looking into the larger interest of the country, the Government of India had to act stringently and looking into the CAD situation had to hike import duty on gold and introduce new 80: 20 gold import guidelines. He strongly stated that Export has and will always remain a priority sector for the Government and necessary steps have been taken by the Government to address various key issue of all sectors from time to time. He further informed the present members that in context to the forthcoming Union Budget for the year 2014-15, the Government has been regularly meeting industry representatives to understand their perspective and gave his assurance of concrete steps that are being announced by Government in the coming months. He also stated that Government has been receiving many representations on Gold deposit scheme and serious deliberations need to be done about the idle gold available in the country.

The floor was opened for Questions and Answer Session:

Question: Issue of intermingling of gold and diamond jewellery business was raised wherein most cases of NPAs have been reported. What is the Government's objective behind allowing all Star Trading Houses and Premier Trading Houses to import and supply gold under the 80:20 Scheme?

Answer: By Shri S.S.Mundra: to control the CAD, the Government was compelled to introduce 80:20 scheme but it is a hard and known fact that with only 45% of the people in the country reached by organised bankers, gold jewellery and jewellers will always remain as alternate banking channels for which the restriction on appetite for gold in India cannot be held for long in current scenario. Bankers, Government and Industry need to come together and address this issue collectively.

Question: Why the export of gems to SEZs not being financed by banks, while exports are financed?"

Answer: SBI: bankers need to interact with the regulators to understand and address this issue.

Question: Are partnership firms eligible for Pre and Post shipment finance scheme and can diamond industry be categorised as SME?

Answer: SBI: in the current scenario, all partnership firms need to corporatize to get the necessary finance from banks. Bankers are following the classification of SME set and issued by the Government of India.

Question: Is there a need for separate guidelines for bankers to assess the exposure of each sector

Answer: Internally banks has their own set of guidelines and they may vary from sector to sector.

Question: SMEs are not getting gold under replenishment scheme and gold is available for loans but nor for exports. Need clarification

Answer: SBI: for some time, the replenishment scheme was not operational and banks will look into the matter of availability of gold for export. However a long standing gold policy is required by the country presently.

Thereafter Shri Pankaj Parekh in his address for vote of thanks for the first session profusely thanked Dr Gurdial Singh Sandhu, Shri S.S. Mundra, Smt Arundhati Bhattacharya, Shri M.V Tanksale, Shri S.R. Bansal for taking out time out from their busy schedule for attending this banking summit and sharing their valuable insights with all of us.

Session 1: Aspects and Present Issues on Financing for the Gems and Jewellery Sector

Moderator: Shri P.S.Pandya, Former Chairman, GJEPC

Shri Pandya introduced all the panellists and started the session for discussion.

Shri Pandya asked the panel if industry is on a healthier side?

Shri Biju Patnaik, ABN AMRO Bank stated that recent developments in the banking sector has affected all the industries including gems and jewellery. Basel III regulations and unhedged foreign exposure are major issues which needs to be addressed properly. Banks cannot judge the opacity of a company unless and until they are in the same situation. Hence corporatization is extremely essential in the present era for growth in the international market.

Shri Mavjibhai Patel, M/s Kiran Gems mentioned that industry has to deal with foreign exchange risks and agreed strongly with all the banks that transparency in the business model needs to be maintained by all exporters.

Shri N.K, Chari, State Bank of India, stated that realization of bills on time is extremely important in the industry. In recent times bills getting stuck and the transparency for them is lacking has shaken the confidence of all bankers which has further made them reluctant in financing this industry.

Shri Russel Mehta, M/s Rosy Blue India Pvt Ltd feels that lot of banks are not conversant fully of this industry and all banks need to adopt Risk management System in context to the current global economic scenario.

Shri Pandya also stated that the nationalised banks have been hit hard by the NPAs where foreign banks like ABN is not having any NPA. Bankers need to understand this fact and measures need to be taken so that those black sheeps are not able to repeat such acts in the future.

Shri Biju felt that ABN AMRO bank due to its strong international presence has been able to deal with those defaulters differently and are better than those nationalised bankers.

Shri Ganju, Bank of India, too felt that communication is very important in dealing with this industry. Bankers should know the business model and the track record of the promoter of the company. Trust is paramount in this industry and bankers on their own are also trying to learn from their NPA's experience and have now become extremely cautious in their approach.

Shri Pandya raised the issue of SMEs as earlier a large chunk of industry used to fall under the category of SME and presently there are diamond & jewellery companies in the same category. However at the time of any financial and economic crisis, they are the worst hit. At times those companies are also not able to understand the requirements of the bankers. He asked the opinion of all the present panellists on requirement of guidelines for SMEs for better interaction and understanding between the SMEs and bankers.

Shri Chari stated that there is difference between SMEs and other industry players and banks need to examine this issue at large scale and continuous dialogues between boththe concerned parties need to be done.

Shri Biju too stated that ABN AMRO bank too is giving preference to the SME sector. Though the SMEs are good in their projects but find it difficult to maintain their balance sheets. This needs to be taken care of properly by them.

Shri Pandya mentioned that Government of India wants to establish India as the International Diamond Trading Hub and has been announcing necessary measures from time to time. Industry feels that bankers are still following the old system and need to recheck the same.

Shri Chari disagreed with this observation and stated that banks are not following the old system and they all need to do continuous assessment of companies looking into their financial stability.

Shri Russel Mehta also mentioned that at present there could be different ways of financing and he feels that Council should form a Working Group for the same to work upon in this issue in detail.

Thereafter Mr Pandya brought the attention of the panellists on requirement of segregating the different segments of the industry as the diamonds, gem, jewellery and bullion industry is normally termed as one industry by the bankers. All the 4 key segments – diamond, jewellery, bullion and gemstones have now grown so phenomenally that each segment now needs to be addressed separately as each has its own peculiar feature and different business model.

Shri Konal Doshi, Co-Convener – Jewellery panel Committee, stated that diamonds have now ventured into the gold jewellery segment. He gave the brief background by mentioning that earlier the price of Indian gold was expensive than the international price. Prior liberalization era, hardly 3-4 nominated agencies were active so exporters while procuring duty free gold from them, were compelled to give the bank guarantee. Stand-By Letter of Credit (SBLC) is an important document which is used for availing gold and for providing export performance guarantee International practice of SBLC was active in India. It is an internal practice followed by most of the banks worldwide. A large number of banks in India are not willing to issue the same, which is creating hardship for the Jewellery Industry. But certain industry players diverted the money into real estate and other avenues and suffered huge losses due to which such SBLC against bank guarantee has been disallowed and needs to be reintroduced as small exporters are suffering due to that.

Shri Ganju, Bank of India stated that now all bankers need to know their customers well in advance and their business model too.

Session 2: The Current Scenario of ECIB and Credit Guarantee in Gem & Jewellery Industry

Moderator: Shri Suresh Khairwar, IRC India

Three point ECGC is willing to consider positively:

- Immediate future: ECGC may apply a uniform reduction on the company / sector rather than applying differential reduction to existing and enhanced sanctions. It will allow more room to offer more coverage while keeping the overall maximum limit of liability for ECGC at the same level.
- Near future: ECGC is trying to impress upon the Government to increase its capital base and in the process if GJEPC can also help by requesting Government to look into it positively. The increment in capital will surely bring in additional capacities into the system.
- Near to Long term: Migration from whole turnover ECIB to Individual ECIB will help monitoring the accounts better and will make banks more accountable. This will bring more favourable approach towards better clients and better banks so that they are not affected by any wrong doing by any individual.
- Reduction of insurance from 50% to 40% to the banks
- Allowing foreign credit insurance cos other than ECGC

Formation of working group:

- GJEPC to form a working group consisting of ECGC, Bankers and Council to study bank related policies of ECGC and to address industry related issues in more details.

Announcement:

- ECIB policy to be introduced within maximum two months once it is cleared by IRDA. So far ECGC has cleared it, GJEPC has cleared it and Actuary (ECGC) has cleared it.
- Once the policy is introduced ECGC is looking at support from GJEPC in promoting the policy as if less number of people opt for it, the policy may end up getting concentrated amongst a few people which may led to similar problems happened in the past.
- Once the policy is introduced, ECGC also looks for GJEPC's active cooperation in terms of information sharing, validations and other paperwork formalities which are stipulated in the policy towards GJEPC.

In the end, Shri Saunak Parikh, Co-Convener – BITC whole heartedly thank all the leading bankers, industry colleagues, media representatives for taking out time from their busy schedule to attend this summit and sharing their valuable insights with us. He strongly opined that industry, bankers and Government of India, all, need to come closer and found areas of consensus which we will all work upon to take them to its logical conclusion. He also thanked the Secretariat for making the event a huge success.

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