

In the Aftermath of NiMo

By the time you are reading this article, enough would have been said about the Nirav Modi, (NiMo), story and how the fraud was perpetrated. When the NiMo scandal broke out, the entire industry was filled with a sense of trepidation of the categorization of our sector in the banking circles. Heaven knows that it has always been difficult to obtain credit limits by banks and, in the aftermath of NiMo, it is probably going to become impossible to do so.

But why is this so? Why is it that it seems to be only our sector that is impacted with such type of events? The steel sector has seen the largest Non-Performing Assets, (NPAs), in the history of the nation where amounts as large as Rs 80,000 crores to one borrower, Rs 45,000 crores to another have not only been declared as NPAs, but are now in the process of being sold to other promoters, and banks are taking 'haircuts' of amounts that are larger than the entire NiMo fiasco of Rs 11,500 crores. Nobody seems to be categorizing the steel industry as a 'rogue' one, yet our industry is treated differently.



The gems and jewellery sector is approximately Rs 6,55,000 crores in size and constitutes 90-95% of MSMEs, (micro, small and medium enterprises), provides 65 lac jobs and contributes 7% of the GDP of the nation. Despite its size, the total banking exposure, as of June 2017, stands at a measly Rs. 69,000 crores to the entire industry. Of this amount, a total of Rs 10,064 crores has been classified as NPAs, which is equivalent to 14.6% as mentioned above."

In 1995, Nick Leeson brought down the centuries old Barings Bank, by 'rogue trading'. More recently, in 2008, Fannie Mae and Freddy Mac caused the mortgage security meltdown,

which contributed substantially to the financial crisis. Despite both cases were of a far higher amount, in the case of Barings Bank, it was Nick Leeson that was held responsible and in the case of the mortgage companies, it was them that were held accountable. In neither case was the industry held in poor light as the West understands that to hold a community responsible for the acts of a few is simply inappropriate.

The jewellery industry of India is no different. A closer look at some facts actually paints a different picture altogether.

In the financial year ended 2017, the percentage of NPAs, across all industries, stood at a whopping 9.6% of all credit limits. If the data for jewellery companies is extricated, and seen with no further investigation, it indicates that, in percentage terms, the total NPAs were 14.6% of all credit limits. As mentioned, if no further scrutiny is conducted, this high percentage endorses the belief that our industry truly is not a good sector for banks viz. sanctioning credit limits. But this is not so, as further investigation

reveals some astounding facts about the true nature of our industry.

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What the consolidated data of Rs 10,064 crores as NPAs does not indicate, is that by removing the top two NPAs, the percentage of NPAs drops to a mere 1.07%.

Naysayers would argue back that removing any NPA from the total NPA list is simply not acceptable and while I personally agree with the logic, the limited point of raising this is to highlight the fact that most borrowers of this sector are honorable and service the debt, as is expected. This needs to be read with the understanding that 90-95% of this industry comprises of MSMEs which, by definition are small borrowers, thus accenting the fact that the larger borrower/ NPAs are anomalies and not the norm.



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Personally, I doubt that these facts would ever be reported, as they are not sensational and would not add viewers to any news channel. Stories on the dark underbelly of the diamond industry, cases of cheating by jewellers, (even though they may be only a few random cases spread over history), etc. are the demand of the hour and journalists are quick to satisfy the appetite of the viewer, unfortunate as that may be. Sadly, no one seems to be interested in highlighting the fact that any importer, irrespective of the industry, could have perpetrated the NiMo scandal. But doing so would have placed

the blame squarely on the lack of vigilance of banks and would have removed the sensationalism of the story.

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As all things shall pass, this shall too, but in the meantime buckle up to be subject to the snide remarks and the unfriendly perspective of the officials.

In the meantime, as mentioned in the Annual Budget, the entire industry is awaiting the formation of the Gold Policy of the nation that may bring in respite for our industry and we may also be looked as contributors to the growth of the nation. ■



The article is written by **Ajay Mehra**, Managing Director, Mehra's Jewellers and Co-Chair, FICCI Gems and Jewellery Committee. He can be reached at ajay@mehrasjewellers.com