

# Challenges Faced by Gems & Jewellery Sector in India in availing Bank Finance

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# Outline

- The Problem Statement
- Research Objectives
- Methodology
- Findings
- Way forward

# Brief Overview of Gems & Jewellery Sector

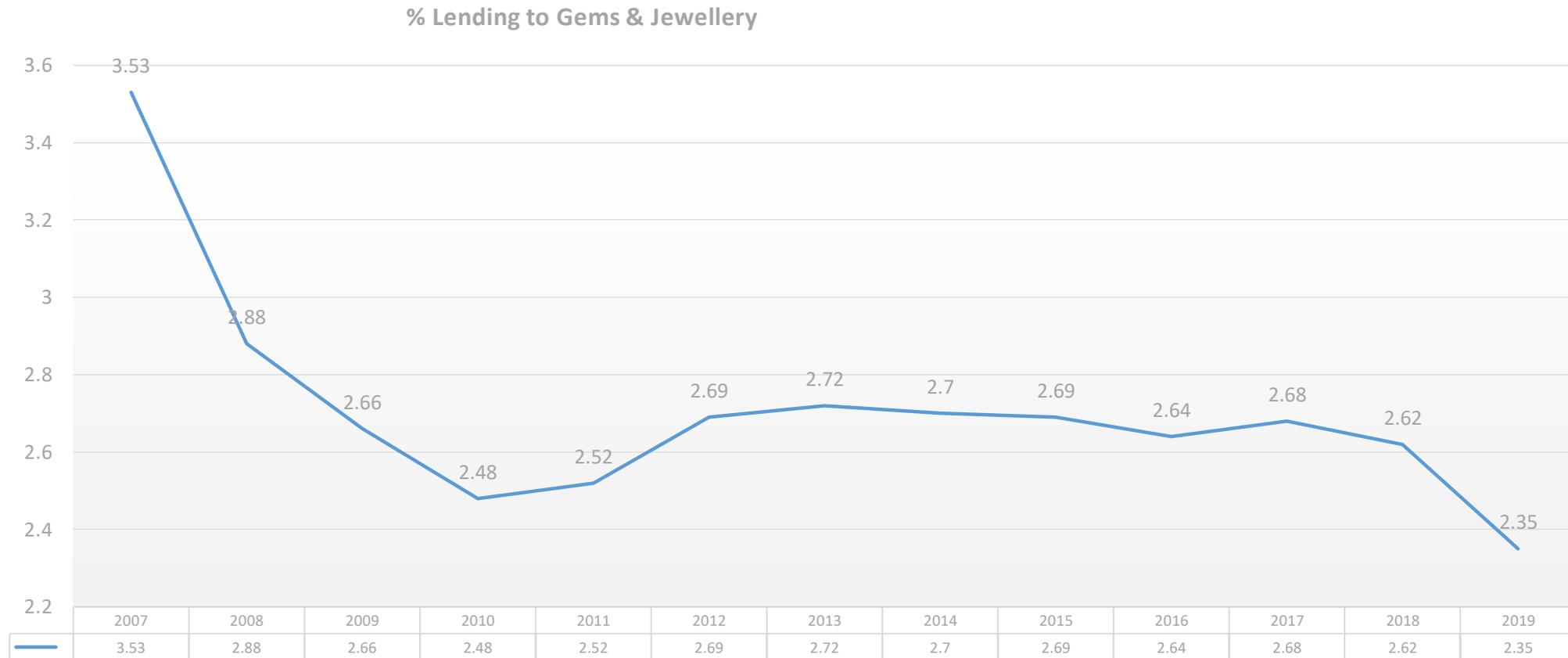
- One of the fastest growing sector
- Gold and gold jewellery contributing around 1.5% of the countries GDP
- Employment to 2.6 million people in India
- India's Gems & Jewellery sector is one the largest in the world contributing to 29% of the global jewellery consumption

# The Problem Statement

- Lending of credit restricted by banking sector to Gems & Jewellery industry in India.
- Why is the Gems & Jewellery Industry categorized as high risk sector?

# Decreasing Lending by Banks

Lending to Gems & Jewellery is on the fall when compared to lending to other Industries with a **CAGR** of **-3.33%**.



# Supporting Articles in Media

## **Banks not lending to players in gems and jewellery sector: GJEPC**

Loan applications were getting rejected even though SMEs were offering collaterals

Players in the gems and jewellery sector have complained that, of late, banks are not giving them loans, which is hindering their expansion plans. However, bankers told dna that while there was no blanket guideline on the part of the banking regulator or bank managements, individual banks may be limiting their exposure to the sector after the recent PNB scam.

"In the past few weeks, I have got over a dozen complaints that banks have refused loans to SMEs," said Dinesh Navadia, regional chairman of Gems and Jewellery Export Promotion Council. "If large borrowers have siphoned off the money, it does not mean banks should become so cautious that even genuine businessmen are deprived of the liquidity."

He said loans applications were getting rejected even though SMEs were offering collaterals. "I have applied for a loan of Rs 10 lakh under MUDRA scheme. I have orders in hand. I want a new machine. It needs to be imported from Italy. But a leading Public Sector Bank (PSB) rejected my application. I even offered a FD of Rs 5 lakh and proposed that instead of paying me, the bank can directly pay the machinery exporter, but the loan was refused," said Jayantibhai Savalia, owner of Dfine Jewellery. Surat.

# Supporting Articles in Media

IndusInd Bank NSE 0.76 % EVP Biju Patnaik, who was also present on the occasion, said the gems and jewellery business funding is complex.

"The primary collateral is stock and it is more about inventory financing as the collaterals are moving stock - don't remain with the lender," he added.

NSE managing director and CEO Vikram Limaye said, NSE overcame several challenges by the adoption of technology, focus on customer, compliance and strong market development.

These are relevant to jewellers too," he added.

NSE is keen to develop a [Gold Spot](#) Exchange with the right structure, he said adding that commodity exchange needs to have more participation from all key stakeholders.

Representative Image

**ET** **New vs Old Tax Slab Regime?**  
Know which one benefits you >

There is need to build trust by becoming more transparent and complaint," [Union Bank of India](#) NSE 0.73 % chairman Kewal Handa said Tuesday at the 2-day Manthan Gems and Jewellery Conclave 2019 here.

He said, the gems and jewellery industry should learn from the pharmaceutical industry, who had taken steps like becoming more compliant, getting [international](#) accreditation and building stronger federation.

"Pharmaceutical industry has completely reformed themselves and set up systems and processes for getting more organised," he added.

The current liquidity crisis in the gems and jewellery industry and bank's non-performing assets have coincided affecting the lenders giving loans to the industry, he said.

By the end of 2017, the bank financing to the gems and jewellery industry was at Rs 70,000 crore, which has now come down to less than Rs 30,000 crore, he added.

# Research Objectives

- To find out the credit facilities that banks have for small retail Jewellers & problems faced in availing those credit facilities.
- To assess the challenges associated with small retailers in accessing credit.
- To make recommendations based on the findings of the research.

# Methodology

- **Preliminary Research – Interview**

Telephonic interviews involving detailed Q&A fulfilling the research objectives with 48 SME Jewelers, 5 Chartered Accountants, 10 Bank officials.

- **Secondary Research – Financial Statement Analysis**

Financial statement analysis of 100 SME Jewellers & Top industry players to highlight the challenges faced by SMEs as compared to larger players

# Telephonic interviews: Questions

- How do they finance their business operations?
- What are the difficulties in managing their business operations?
- Describe few challenges faced while taking working capital financing from banks
- Can you give a few suggestions for simplifying the loans process?
- What challenges do banks face while availing credits to Jewellers?

# Challenges faced by the jewellers in getting credit from Banks



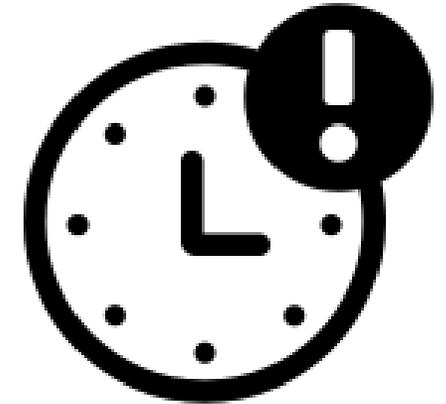
**High Interest Rates**



**Collateral Requirements**



**Cumbersome Documentation**

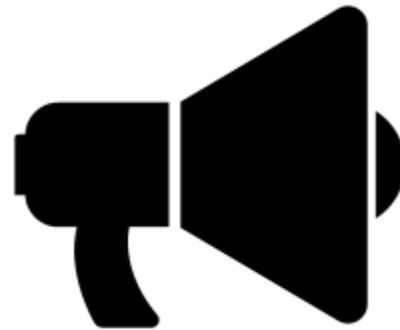


**Delay in Loan Disbursement**

# Challenges faced by bankers in giving credit facilities to the jewellers



**Understatement/overstatement of financial records & past financial performance**



**Information Disclosure Agreements**



**Recovery of Bad Debts**



**Inventory Frauds**

# Bank Limitations due to nature of Gold & Jewellery

- Gold is mobile
- Gold is most Liquid
- Gold can be faked by appearance
- Challenge for Inventory Tracking and Verification
- Gold: A Store for Black Money
- Price volatility



# Secondary data: Ratio Analysis

	Rs. Million
	Mar-18
▼ Total income ▼	
Rajesh Exports Ltd.	386227
Titan Company Ltd.	112028.4
Kalyan Jewellers India Ltd.	81289.5
Kiran Gems Pvt. Ltd.	77719.8

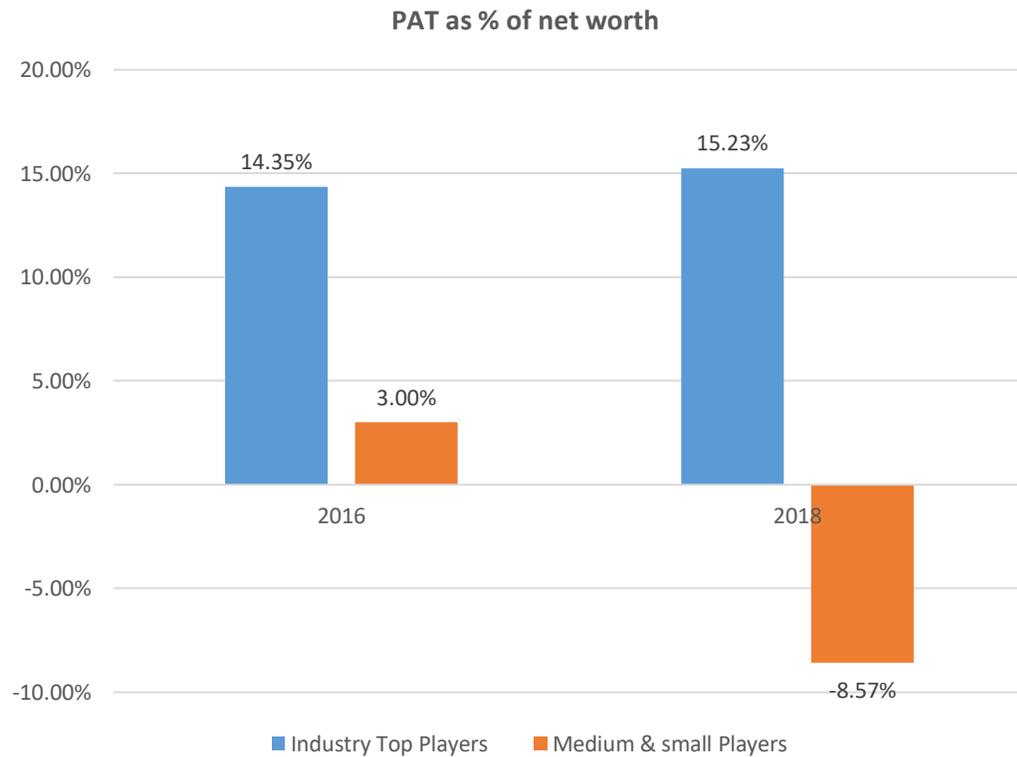
Leela Gold Designs Ltd.	431.8
R G Jewells Pvt. Ltd.	407.2
Ravissant Pvt. Ltd.	329.7
Fine Jewellery (India) Ltd.	306.1
Sambhav Gems Ltd.	305.2
Industrial Jewels Pvt. Ltd.	274.1
Neogem India Ltd.	240.6
Creative Gems & Jewellery Ltd.	188.2

Industry Top Players

SME

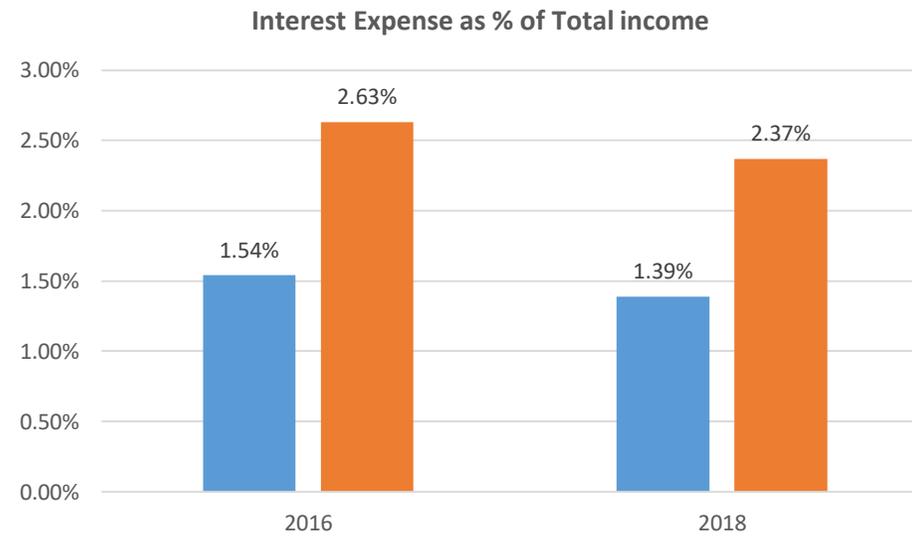
Understanding financial positioning of SME Jewellers compared to the industry top players

# Findings – Low Returns from Business

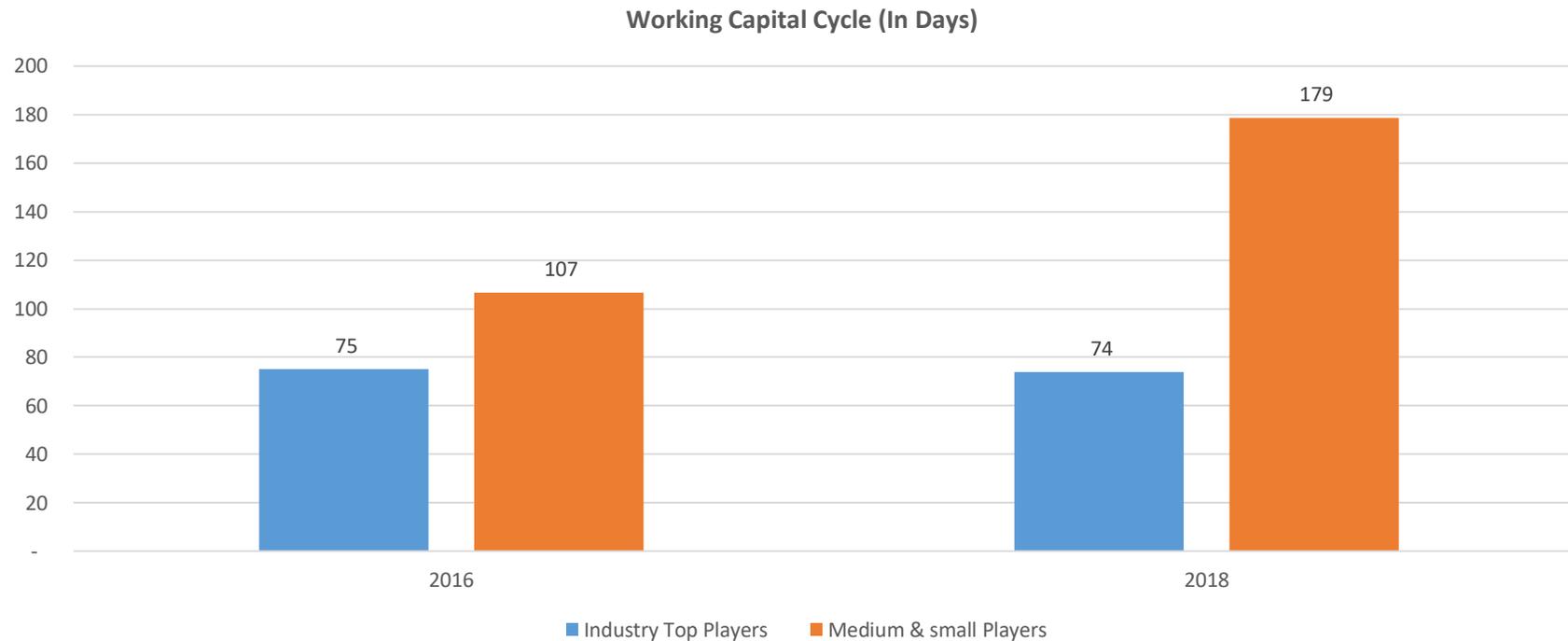


Medium and Small payers in the industry have negative returns on average

# Findings – Reduced leverage



# Findings – Working Capital Cycle



# Implications

→ Low returns on assets and capital

→ Liquidity Crisis



HIGH RISK

LOW RETURNS

NEED OF MONEY

Adding Past History of NPAs, Inventory Tracking Issues, Ease of Liquidity and Movability – it makes a truly challenging scenario for banks to justify recovery on lending.

# Crux of the Problem

## Govt. Mistrust

- Consistent increase in import duties on Gold making importing Gold, difficult for SME jewellers.
- Black Money transactions.
- Tax evasion.
- NPAs and frauds.

## Banks Mistrust

- Quantum of frauds (NPAs) unearthed lately.
- Unaccounted wealth (Cash dealings of jewellers).
- No control or possession over hypothecated inventory.

## Customer Mistrust

- Past cheating about content and proportion of gold/Fakeness of diamonds in jewellery by jewellers.
- Customers preferring large Jewellers instead.

# Way forward - Build Trust

## But HOW?

By Creating an Independent Organization, with Banks, Government and SME Jewellers, as its primary Stakeholders.

Even RBI in its Executive Summary dated 25 June, 2019, States:

*“26. With a view to reduce the credit gap, a new intermediary i.e., Loan Service Providers (LSPs) – who will be an agent of the borrowers is recommended for consideration by RBI. Further, The LSPs will offer individualized advice and should act in borrowers’ best interests, respecting fiduciary duties of disclosure, loyalty and prudence.”*



# Other Solution - To build trust

- Insurance agencies cover the risk of gold jewellers against any risk of theft (though the claims arising would be relatively low), any credit could be considered only for insured inventory.
- Bank Lending to jewellers can improve lending rates based on business history as their fleeting risk is less and customer relationship strengthens.
- Ways to enable or empower Monthly savings schemes currently run informally by using latest technology that prevents frauds.

# Research Limitations

- Unwillingness of respondents to give in-depth information or lack of sincerity due to fear and confidentiality.
- Data collected is a representative sample study of the jewellers of India.
- Ratios & Financial Statement Analysis is not just the primary reason for banks to resist credit, hence other issues of Trust, Control and Security of Hypothecated / Pledged Inventory are also focused upon.

# Thank You

# Questions?