

GJEPC Banking Summit To Mitigate Post-scam Fallout

The Gem & Jewellery Export Promotion Council (GJEPC) will collaborate with leading banks and release a white paper during a Banking Summit organised on May 11th in Mumbai. The paper aims to address critical banking issues like assessment of credit limit, collateral security, related party transactions, inventory valuation, subsidiary financing guidelines, etc., especially mitigating the concerns of the key stakeholders of the industry that has been hit by the recent PNB-Modi-Choksi fraud.

The summit will be graced by commerce and industry minister Suresh Prabhu, along with commerce secretary Rita Teotia, State Bank of India chairman Rajnish Kumar, De Beers executive vice president Paul Rowley and several other senior officials from leading banks.

The white paper titled “Diamond Financing 2018 New Challenges” has been compiled by GJEPC in consultation with the gems and jewellery industry and top banking lenders. It will offer solutions to mitigate the fallout post the recent scam “to ensure we embark as an industry on the journey towards self-regulation and ensure good promoters continue to get credit.”

In light of the present scenario, the white paper focuses on key challenges faced by the bankers in financing the gems and jewellery industry and how to address them. It has put across GJEPC and trade members’ views on critical issues with the further action of notifying and informing the government, Reserve Bank of India (RBI), Export Credit Guarantee Corporation of India (ECGC) and other concerned authorities.

Pramod Agarwal, chairman of the GJEPC, said, “The banking seminar gives us a joint forum to regain trust and ensure all bankers have a profitable experience in lending to this trade. Under the aegis of the commerce and industry minister, we expect a large participation from both the banking fraternity and the gems and jewellery industry. The white paper will be historic for any industry and will play a critical role in creating an enabling environment for this labour-intensive sector going forward.”

The gems and jewellery industry, in its journey towards self-regulation, has an underlying responsibility to earn back the trust of the banking industry.

“In that journey, a joint seminar with the government, banking fraternity and the industry is the ideal platform to help mitigate the risks of our lenders. GJEPC has worked on a white paper that would address and find solutions to specific issues like assessing working capital limits, collateral security, related party transactions and the valuation of stock,” said GJEPC Vice Chairman, Colin Shah.



Downgrading of the trade will further lead to spiking up costs such as interest, processing fee, which is financially not viable as gems and jewellery is a labour and working capital-intensive industry with low margins.”

The white paper has requested bankers not to reduce their current credit limits as this would further hamper and erode the exports of the country and employment.

“Downgrading of the trade will further lead to spiking up costs such as interest, processing fee, which is financially not viable as gems and jewellery is a labour and working capital-intensive industry with low margins. The banks should look at the performance of the company and its business model. Besides, a credit risk investigation team should be set up to track and provide intelligent information from trade members, which can then be used by bankers to take informed credit decisions,” the white paper states.

In order to facilitate exporters and insulate against foreign exchange fluctuation, the Council has proposed working capital limit to be assessed in dollar terms in line with the RBI circular of September 2013.

The Council has also proposed to provide critical data analysis and hold a meeting between Council, bankers and trade members once every quarter. It also intends to take up with the RBI issues such as advance remittance and its likely misuse, mandatory registration of all members under MyKYCBank, which will help banks establish the credibility of the members. Bankers will be given access to this GJEPC portal, the white paper notes.

The Council has proposed collateral security based on a company’s credit rating. Banks can also find a fair resolution, as successfully done recently in the case of a recent insolvency, and form a regulated arbitration body consisting of GJEPC, Bharat Diamond Bourse (BDB) and bankers for dispute resolution.

On related part transactions, the Council has proposed to send goods directly and documents later through the bank for acceptance. Banks have been requested to consider a waiver for certain companies based on their creditworthiness and performance.

Similarly, and most importantly on stock evaluation, the Council proposes for at least one valuation in a financial year by external independent valuers besides adoption of IFRS or accounting standards and has encouraged a system audit. ■