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Banks still averse to lend to gems & jewellery players: SBI

BY PTI | MAY 11, 2018, 09.13 PM IST

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MUMBAI: The banking sector is still averse to lend to the gems & jewellery sector which recently saw the biggest fraud in the nation's financial history, a top [SBI](#) official said.

In February, state-run [Punjab National Bank](#) had reported a fraud of over Rs 13,000 crore, allegedly committed by billionaire diamantaire [Nirav Modi](#) and his uncle [Mehul Choksi](#) in connivance with some of their officials using fake letters of undertaking and letters of comfort.

The second largest public sector bank had detected fraudulent transactions at its [Brady House](#) branch in south Mumbai for several years from 2011.

"Unfortunately, the higher risk perception, which has been created over the past months has lead to a situation where it is very much under question that whether we should lend (to the gems & jewellery sector). And if, at all, we lend, then at what price we should lend," State Bank managing director Dinesh Khara said at an industry event here today.

He said when it comes to risk perception on any sector, it has a bearing of the past, and unless that experience is addressed, concerns will continue to remain.

Khara further said though the NPA level in the gems and jewellery sector is just 1 per cent, this single default has shaken the industry.

"The NPA level may be 1 per cent for the industry but we cannot ignore this particular threat which we have seen on ground. This is one of the reasons why you are probably seeing action from bankers," Khara said.

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Following the Nirav Modi fraud, the Reserve Bank had early March banned the letters of undertaking (LoUs) and letters of comfort (LoCs), which are extensively used for trade finance in the gems and jewellery sector and the same instruments, but fake, were used by the Modi-Choksi gang to defraud the bank.

Both the persons have left the country a month before the scam was reported.

The ban on LoUs and LoCs has increased the cost of borrowing for the sector.

Khara said the higher cost of borrowing is a direct risk and reward relationship at which the pricing is done by all bankers.

He also asked the gems and jewellery industry to follow a lot of discipline among themselves as any discrepancies may affect the honest among them as well.

"Once bankers have the confidence that the industry payers are living up to what they have committed, I am sure it will go a long way to build the confidence level up, and also ease market situation as far as credit is concern," he added.

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