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Banks opening up loan window to high rated gold jewellers, but no respite for smaller ones

BY [SUTANUKA GHOSAL](#) & [ATMADIP RAY](#), ET BUREAU | SEP 10, 2018, 10.52 PM IST

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KOLKATA: Banks are slowly opening their purse strings to organised retail gold chains such as [Joyalukkas](#), [Kalyan Jewellers](#) and others with good credit ratings, but the loan window has remained largely shut for diamond merchants and smaller jewelers, making them gasp for working capital.

Banks across the board have restricted lending to jewellers after the Rs 13,700-crore [Punjab National Bank](#) scam involving diamond merchant [Nirav Modi](#) erupted early this year.

While the geopolitical tensions between the US and China have also weighed down on the diamond sector, a steadily falling rupee too is pushing up gold prices and affecting the jewellers.

[Gold jewellers](#) told ET that they are a little better off now than diamond merchants as price discovery in gold is market-driven and more transparent. But to avail of a bank loan, the minimum requirement is an investment grade credit rating.

“We have a stable rating for our gold business, so we are not facing much of a problem,” said Joy Alukkas, chairman of the Kerala-based jewellery retail chain Joyalukkas. “However, many jewellers from south India are not being able to get new loans unless they have a good rating.”

The overall lending scene, however, remains gloomy ever since the PNB scam called into question banks’ underwriting skills for the jewellery sector and their preparedness to detect fraud. Outstanding [bank loans](#) to the gems & jewellery sector dipped 6.3% in the first

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quarter: the central bank recorded it at Rs 68,100 crore as on June 22 as against Rs 72,700 crore on March 30.

“Both gold and diamond are almost closed sectors for banks,” a senior State Bank of India executive said. “For existing accounts, the action plan is to reduce limits and increase collateral coverage,” he said.

The lenders are now taking stock of gold inventory more diligently to avoid any information mismatch.

Nitin Khandelwal, chairman, All India Gem & Jewellery Domestic Council, said that despite banks taking stock of the gold inventory they are also pressing for BBB rating before giving working capital to jewellers and bullion dealers. “It is becoming difficult for the medium and small players to get rating for their business,” he said.

India annually consumes around 800-850 tonne of gold. Of this, four southern states -- Andhra Pradesh, Karnataka, Kerala and Tamil Nadu – get about 40% of the country’s overall demand.

While a couple of jewellery exporters had become bankrupt in the past, a handful of rough diamond importers have also been caught by the Department of Revenue Intelligence for alleged manipulation in the valuation of import consignments.

Surendra Mehta, general secretary, India Bullion & Jewellers Association (IBJA) said: “It is difficult to carry out valuation of diamonds. But a proper valuation system exists in gold trade as the price within India is determined by international prices.”

Internationally, gold price fell for the second straight session on Monday as expectations of an interest rate increase by the US Federal Reserve in September and fears of an escalation in US-China trade tensions kept the dollar firm. Spot gold was down 0.2% at \$1,193.15 per troy ounce. Gold was trading at Rs 31,621 per 10 gm in the domestic market on Monday.

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