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When all that glitters beckons

Going beyond diamonds, a new roadmap sees $60 bn. of annual gems and jewellery exports in 5 years, from $35 bn. now

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After diamonds, now it is time for jewellery of all kinds to glitter. Jewellery manufacturing in India, which dates back over 2,000 years, is being given an impetus to enable India emerge as a leading exporter of gold and diamond jewellery in the world. , Prime Minister Narendra Modi, in his visit last week to the diamond city of Surat, reiterated his vision to make India the gems & jewellery hub of the world.

"Enough of just diamond cutting and polishing work. Now we have to be number one in gems & jewellery, not only in 'Make in India' but 'Designed in India' jewellery in the world," he said.

The diamond cutting & polishing industry may be only 60 to 70 years old in India but the country has established its dominancein the global market. Today, 12 out of 14 diamonds sold in the world are polished or cut in India. In value terms, India has 60% market share in the global diamond market and in volume it is 90%.

The aim of the government now is to have India corner more than 50% of the jewellery exports market currently dominated by manufacturers from Italy, Turkey, Germany and Hong Kong.

The government has asked the industry to draw up a roadmap to boost exports and has assured all help including skill development of artisans and jewellery manufacturing. Skills become critical as the global market demands fashion jewellery, unlike heavily fabricated jewellery which are in demand from customers in India and people of Indian origin.

'Skill development starts'

"The skill development process has already started. Then the next phase would be infrastructure development," said K. Srinivasan, MD, Emerald Jewel Industry India Ltd. and convener of Gold Panel of Gems & Jewellery Exports Promotion Council (GJEPC), the commerce ministry body responsible to boost gem and jewellery exports.

"Once that is done, jewellery exports will increase. Today we are not exporting much as we lack the capability to manufacture designs foreigners want," Mr. Srinivasan said,

Indian manufacturers have the expertise to make 22 and 20 carat gold jewellery but exports market demand jewellery that are made of 8 or 10 carat gold.

Buyers in the U.S., the biggest exports market for jewellery, are fashion oriented and buy lightweight jewellery that does not cost much.

So India needs to go for large scale production of jewellery through machines to cater to the global demand.

"For that we need to set up common manufacturing facility as every jeweller does not have money. Besides, we need to increase our ability to understand the fashion trends of foreign buyers and come up with designs that they would like," Mr Srinivasan said.

Rajesh Exports Ltd., India's largest jewellery exporter exports about 150 tonnes of jewellery a year. The company said an export push would benefit the industry.

"Jewellery exports from India are growing by 5-10% a year and the idea to promote jewellery exports is very good," said Siddharth Mehta, Chief Strategist, Rajesh Exports Ltd.

'Never too late'

"India has a strong base in jewellery manufacturing and a lot of workers are engaged in this business. We should have encouraged jewellery exports a long time ago because our strength has been in jewellery making for ages." Manufacturing and exports of other sectors were more recent, he added.

The global retail jewellery market is estimated at 2,900 tonnes per year and Indian and China are the biggest consumers. In the exports market, the U.S., Europe and UAE are the biggest followed by Japan and Australia.

Sanjay Kothari, CEO, Diatrends Jewellery and past chairman of the GJEPC said, "For us sky is the limit. We are now developing the managerial skills of people to run the factories. We are also training workers for the same."

The Indian Institute of Gems & Jewellery (IIGJ) located in Mumbai is being strengthened for capacity building and skill development across India.

It is opening two more branches in Varanasi and Udupi to support jewellery making in those areas. It is also increasing the student intake to help India achieve the desired objective in the jewellery business. " In jewellery we are meeting around 10% of the global demand. We want to achieve 60-70% share. Hong Kong is famous for studded jewellery, Italy is famous for plain gold jewellery. We have the capability to manufacturing and supply both these types. Easily we can increase our share to 30% within five years," Mr. Kothari said.

GJEPC data shows most of the plain gold jewellery was exported to Malaysia followed by exports to the UAE, Singapore and the U.K. In 2016, most of the studded jewellery was exported to France and the U.S.

Industry insiders said jewellery exports could not achieve full potential due to apathy of successive governments.

"India did not give any attention to the jewellery sector all these years," said Ashok Minawala, past president of Gem & Jewellery Federation.

"We are selling jewellery to countries where Indians are there. We never tried selling much to an American or a German in a big way. The market has tremendous potential," he said.

He added that the government must support the industry. "There has to be ease of doing business. Today, it is a nightmare to export a shipment of jewellery. It is not the same with diamonds. The amount of documentation that takes place deters people from export," he said.

"Foreigners go to Dubai and find out about India. When they go to Gold Souk in Dubai, 90% of the jewellery is from India, the people selling jewellery are Indians. But the credit goes to UAE and not to India. UAE could turn Dubai into the city of Gold but not India which had everything in its favour," Mr. Minawala said. Jewellery exports to the UAE in 2016 were close to $5,527 million compared with the U.S. to which exports amounted to about $1,676 million.

Export strategy

Indian exporters have prepared an export promotion strategy and a target of $60 billion worth of gems and jewellery exports in five years, from last year's $35 billion which included over $22 billion from exports of cut & polished diamond.

"We have set a jewellery exports target of $60 billion by 2022 in a detailed vision document. Apart from generic promotion, we would focus on hand-crafted jewellery and value addition to achieve the target," said Praveen Shankar Pandya, chairman, GJEPC.

In their revised strategy, Indian diamond exporters are planning to reduce exports of cut and polished diamond pieces and focus more on shipment of value-added products which include studded jewellery.

"Apart from the Middle East, European and American markets are reviving which is a good sign to achieve higher export growth. So, we are aiming at higher exports through value addition, brand promotion and re-orientation of rough diamond import strategy through its auction sale in India," said Sabyasachi Ray, executive director, GJEPC.

Currently, Indian jewellery manufacturers are primarily shipping out unbranded products to overseas importers ,who then tag these products with their own brand and charge a premium from buyers. Indian jewellers are now planning to shift from unbranded to branded jewellery for higher value realisation.

GJEPC, with the help of the commerce ministry, is setting up a gold craft and design institute at Udupi in Karnataka to reskill local artisans.

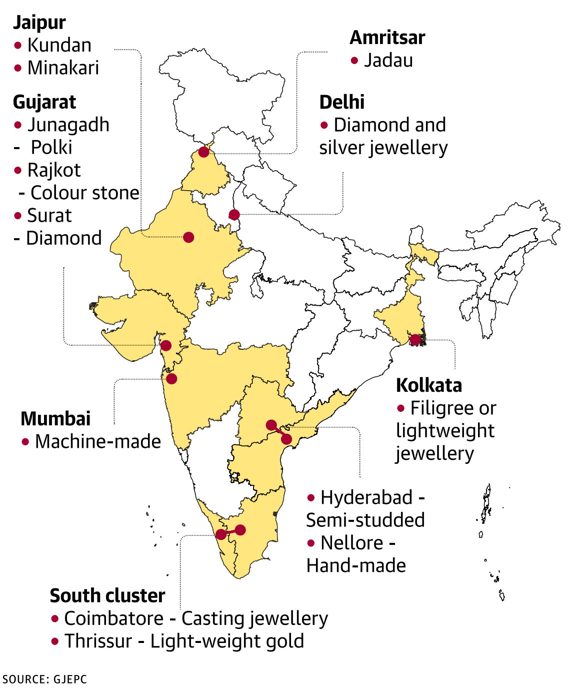
The institute, which is aimed at reviving manufacturing activity in Dakshina Kannada cluster, will have a common facility centre to help artisans of the Udupi region work with state-of-art machines in the jewellery sector.

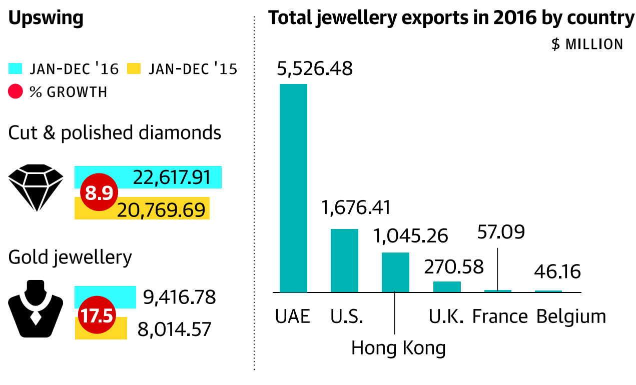
Similarly, a jewellery park is being planned in Mumbai and also in the offing is a university for ,jewellery.

However, it is no easy job. A leading jeweller said, "The PM wishes that we should focus more on exports than the domestic sector. It is just like asking a Kirana to get into exports. It is not that easy. The dynamics are different. A jeweller is essentially a Kirana store and a massive transformation is required to achieve the goal."

Sparkle, spangle, shine

India's success with diamonds has sparked zeal to increase other jewellery exports. Countries with Indian diaspora have absorbed our exports and those wanting fashionable designs are yet to bite





The psychology of investing

Three factors define a good investor

ANAND SRINIVASAN

The human brain is wired for two things. One, it tries to identify patterns by scanning previous episodes and finding one from the past similar to the current situation. Two, from our ancient days, our ancestors have perfected a 'fight or flight' response when we encounter a 'dangerous' situation.

Our approach to investments in the stock markets where prices are displayed continuously on a monitor is based on the above approaches of the brain to a situation. When the markets are in a buoyant mood and everyone is soaking in stocks, the retail investor tends to jump in and invest in the market. When the markets take a turn for the worse, the same investor becomes nervous and decides to take flight at the first sign of trouble.

The herd tends to take the exact opposite approach of what would be ideal for the stock markets, which is to buy low and sell high. In the great boom of 2000 where there was a mad scramble for Internet stocks, Warren Buffet steered clear of the technology stocks. For a couple of years he underperformed the stock indices by a large margin as the herd of retail investors pushed up the price of technology stocks to astronomical levels.

The high reached by the NASDAQ index was breached again only in 2015. Several retail investors were wiped out in the ensuing technology stock meltdown. The same story has played out in India several times.

The Reliance Power IPO is a case in point, where retail investors placed their bets in the IPO at high prices, but have not recovered investments.

A successful stock investor must have the following qualities: principled defiance, ability to take intelligent risk and spot hidden value

Principled defiance means an investor is not swayed by market sentiments or by a person christened Mr. Market by Benjamin Graham. Mr. Market represents the mindset of the herd of investors. He should be able to hold his nerves when he believes that prices are not reflective of the fundamental intrinsic value of the stock.

Neither buy with the herd, nor rush to sell when the market collapses.

Most of us think of risk in terms of protecting one's capital by selling stocks when Mr. Market is at his most volatile. When prices plummet we tend to sell at the point of maximum pessimism instead of plunging in to buy more.

The biggest risk you can take is to miss your financial goals because you have been too conservative with you investments.

Finally, most investors do not look at the hidden value in a company, which is normally tucked away in the unknown corners of an annual report.

Often, it takes years for the market to identify that value. It takes a discerning investor to identify the value and go against the grain of the market. Such an investor makes enormous profits when the market recognises that value.

Hidden value come in three forms: Intellectual property rights that can yield useful royalty or brands that may be licensed out profitably; large tracts of real estate holdings which can be either be sold or developed successfully; subsidiaries that will generate huge cash flow in the future or can be sold for enormous profits. Mahindra & Mahindra, Tata Global, Exide Industries and Tata Motors are notable examples of companies with hidden value in the past decade.

(The writer is an author and consultant)

EXPLAINER

Disciplining government debt

The government has put in public domain the report of a high-level committee tasked with reviewing the Fiscal Responsibility and Budget Management (FRBM) law of 2003. The panel has suggested a roadmap for India's fiscal deficit to reach 2.5% of GDP by 2023, including a new law and a new approach for attaining macro-economic stability that not only focuses on the fiscal deficit, but also the total amount of debt the country takes on. Finance Minister Arun Jaitley has set a fiscal deficit target of 3.2% of GDP for 2017-18 as opposed to the committee's recommendation of 3%. But he has committed to deficit level for 2018-19 and 2019-20.

Sounds very technical. Should you be bothered?

■ Yes. All government spending – be it to build highways or pay outstanding loans of farmers – are financed by the taxpayer and disproportionately so in India, thanks to its low taxpayer base.

Excessive spending and unchecked borrowing by governments to please the electorate not only poses the risk that of higher taxes in future while cramping essential public spending by future governments on the next generation.

In recent decades, such reckless spending has got the country into a tight spot, including the brink of default in 1991 – when the economy was perforce opened up.

A side effect of such spending – investments and new jobs creation slow down too.

Why didn't the existing law work?

■ When the lessons of 1991 were forgotten by the late '90s, the then NDA government introduced a law to lower fiscal deficit as a proportion of GDP to 3% by 2009 from the 10% it had reached. However, when the global financial crisis of 2008 erupted, the target was lost sight of as the government opted to spend its way out of trouble. Though the law was amended to meet the 3% target by March 2018, the present government is aiming for a 3.2 % deficit by then - perhaps to offset the adverse impacts of demonetisation.

Will the new approach make a difference?

■ Apart from specifying fiscal and revenue deficit targets for each year up to 2022-23, the committee has suggested a new Debt and Fiscal Responsibility law and a focus on the overall government debt (including states' debt) level - which should be 60% of GDP by 2023 from 68% now. More importantly, it has proposed a new Fiscal Council that must be consulted any time the government wants to deviate from debt targets. Such deviations, it has said, should only be allowed by invoking an escape clause with pre-set triggers that include events such as an act of war, national disasters, a collapse of the farm sector and far-reaching structural reforms with unanticipated fiscal implications. The question is whether the government would bind itself to such discipline.

'Bad banks welcome, but where's the capital?'

Proposals for a 'bad' bank have met with objections as large NPAs trigger worry. Whither the way forward?

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The total stress in the Indian banking system is about ₹14 lakh crore. In other words, this is the amount for which loans have been given to industry and for which there is now no certainty of repayment. The figure is set to increase with the banking regulator recently raising a red flag over the indebtedness of the telecom sector and asking banks to increase standard asset provisioning. This means that even if the account is not a non-performing asset (NPA), banks have to set aside higher capital. In fact, the Reserve Bank of India (RBI) has asked banks to identify stressed sectors and to make higher provisions to prepare for bad days ahead.

Bad loans in the Indian banking system have almost doubled in the past year. According to Reserve Bank of India data, gross NPA, as a percentage of gross advances, went up to 9.1% in September 2016 from 5.1% in September 2015. In the same period, stressed assets (which is gross NPA plus standard restructured advances and write-offs) moved up from 11.3% to 12.3%. Some estimates suggested it had doubled since 2013. Public sector banks share a disproportionate burden of this stress. Stressed assets in some public sector banks have approached or even exceeded 20%.

Seeking succour: The economic survey advocated the establishment of a centralised Public Sector Asset Rehabilitation Agency to deal with the bad loans problem. • GETTY IMAGES/ISTOCK

A PARA solution

Amid the sharp rise in NPA, talks of setting up a 'bad' bank have been gaining momentum. The government and the RBI are drawing up strategies on how to operationalise such a scheme. The economic survey of 2016-17 pointed out the twin balance sheet problem – stressed companies on one hand and NPA-laden banks on the other – and advocated a centralised Public Sector Asset Rehabilitation Agency (PARA) be established to deal with the bad loans problem.

"Private Asset Reconstruction Companies (ARCs) haven't proved any more successful than banks in resolving bad debts," the economic survey had said while proposing the 'bad' bank. "But international experience shows that a professionally-run central agency with government backing – while not without its own difficulties – can overcome the difficulties that have impeded progress," it added.

One challenge private sector ARCs face is that of capital. None of the entities till now has been allowed to tap the capital market for raising funds. Kotak Mahindra Bank, which recently took its board's approval to raise ₹5,300 crore equity said the bank also wanted to capitalise on opportunities in acquisition and resolution of stressed assets in the banking sector including participation in a 'bad' bank. Kotak Mahindra Prime and Kotak Mahindra Investments, companies in the Kotak Mahindra Group are sponsors of the asset reconstruction company Phoenix and together own 49% stake in it.

"Total estimated stress in Indian banking is about ₹14 lakh crore," Uday Kotak, VC and MD, Kotak Mahindra Bank said. "Out of ₹14 lakh crore, about ₹4 lakh is the further pain which the banking system has to take." That is, another ₹4 lakh crore could move from being tagged as stressed assets to actual NPAs. To put things in perspective, ₹4 lakh crore is 50% of the total capital of Indian banking today, he said.

"The ARCs are badly capitalised. We see significant opportunity for Kotak in this," Mr. Kotak said adding the country would need 2-3 well-capitalised 'bad' banks.

Some central bank as well as government officials also admitted capital was the biggest challenge in setting up a 'bad' bank. "At least ₹25,000 to ₹30,000 crore of capital will be required to set up a bad bank in the initial stages. Where will the money come from?" asked a senior central bank official.

Two models

RBI deputy governor Viral Acharya recently suggested two models to solve the problem of stressed assets. The first, Private Asset Management Company (PAMC), is said to be suitable for sectors where the stress is in such that assets are likely to have economic value in the short run, with moderate levels of debt forgiveness. Some of the sectors which this model could address metals are telecom and textiles.

In this model, each resolution plan would get vetted and rated by at least two credit rating agencies to assess the financial health and in terms of timeline, the banking sector may be asked to resolve and restructure, say, its 50 largest stressed exposures in these sectors, by December 31, 2017, the deputy governor had proposed.

The second model is the National Asset Management Company (NAMC), which would be necessary for sectors where the problem is not just one of excess capacity but possibly also of economically unviable assets in the short- to medium-term. Mr. Acharya cited the example of the power sector, where projects have been created to deliver aggregate capacity that is beyond the estimated peak utilisation any time soon.

"Unlike the first model (PAMC) where asset recovery is likely to be relatively quick, these assets may require a long time to start generating cash flows," Mr. Acharya said. He, however, declined to call these entities as 'bad' banks.

"Are these supposed to be 'bad banks'? The answer is 'No'. While I have previously used the phrase for such ideas, over time I have come to dislike the title. A 'bad bank' conveys the impression that this entity is to operate as a bank but has bad assets to start with. In fact, the idea is not to operate these entities as banks at all," he said in a speech.

He said it would be better to limit the objective of these asset management companies to orderly resolution of stressed assets with graceful exit thereafter.

The Korean experience

The Korea Asset Management Corporation (KAMCO) played a major role in resolving stress in its banking system which was at the heart of the financial crisis that the country faced in 1997-98. The recovery was characterised by a rapid and drastic reduction in the level of bad loans in the financial system.

A study by the International Monetary Fund said KAMCO first purchased distressed assets from banks and other financial institutions, which allowed lending to resume at a time of scarce liquidity. "This objective was complemented by increased supervision to ensure that banks were operating on sound commercial principles."

The study noted KAMCO's resolution of bad loans contributed to the good progress made in Korea in recovering public funds injected by the government for financial sector restructuring. "In addition, KAMCO disposed of many of these distressed assets through a number of innovative methods, including by issuing asset-backed securities, which launched an important new market in Korea," it said.

The Korean government announced a programme of NPA acquisition as a mechanism to deliver official support for bank restructuring in November '97. A key component of the programme was the establishment of a reorganised and expanded KAMCO, and the creation of the NPA Fund.