

\$1.8 bn fraud threatens to create liquidity problems in gems, jewellery sector

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MUMBAI

The \$1.8 billion fraud at Punjab National Bank (PNB) committed by billionaire jeweller Nirav Modi threatens to dry up funding for India's gems and jewellery industry, as banks move to tighten their loan processes and seek higher collaterals.

"Getting finance will be hard. The industry is capital-intensive. It is a high-value product industry. Tracking the inventory is also a challenge for the financiers. Prudent financial arrangement should be evolved to avoid such a situation," Sankar Sen, chairman and MD of Kolkata-based Senco Gold Ltd, said in a phone interview. He is also the chairman of Assocham National Council on Jewellery.

"Indian jewellery industry has two facets—exports and domestic. The domestic industry is essentially small jewellers and they do not take his (Nirav Modi) kind of loans. I don't think it will have any impact on domestic business. Exporters will have an impact as they won't get liquidity. I expect the number of compliances to go up," Sen said.

The stakes are high. The gems and jewellery industry in India has over 500,000 firms and employ over 2.5 million workers, according to Care Ratings. It contributes 6-7% of the GDP of the country, besides being an important foreign exchange earner. According to an SBI official, the country's largest lender has been shrinking its exposure to the gems and jewellery sector over the past three years.

"The bank typically lends 5-10% of the turnover exposure to the sector. Lending to the sector is a risky business as these are unlisted entities.

Their business model with the parent here and offices abroad is questionable. Valuation of these gems is the other biggest issue. Most banks lend based on the promoters' integrity. The recent PNB scam is likely to have an impact on further lending to this sector," the official said. Another official at the bank said that banks will do away with interest rate concessions apart from tightening its loan processes, which would mean that the jewellers will have to postpone their expansion plans. The fraud, in which diamond jewellery designer Nirav Modi allegedly acquired letters of undertaking (LoUs) through fraudulent means for overseas credit from other Indian lenders, is being probed by CBI and Enforcement Directorate, among other agencies.

"Our impression is that no bank gives loan without sufficient collateral. We are surprised that how the bank has given such a loan. It was very bizarre," Sen of Assocham said. "We are observing this situation before making a representation to the government."

Most banks are trying to cut exposure to the diamond sector, according to a diamond trader who also spoke on condition of anonymity.

"The reason is that everyone knows that the margins are non-existent and the promoters tend to siphon off bank funds elsewhere. Earlier, banks used to lend at 20% collateral of loan value now banks are demanding anywhere between 60% to 100% security against loan, that too as fixed collateral and if only they are willing to lend to diamond companies at all," the diamond trader said.

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“ Industry must set standards for clean and best banking practices

Assocham secretary general **D. S. Rawat** on the alleged fraud at PNB



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'Govt. must cut stake in PSBs to below 50%'

NEW DELHI

The fraudulent transactions worth ₹11,500 crore detected at Punjab National Bank should act as a strong trigger for the government to reduce its stake to less than 50% in public sector banks (PSBs), industry body ASSOCHAM said. It argued that PSBs should then be allowed to function on the lines of private sector lenders with a full sense of accountability to their shareholders, protecting the interest of depositors. PTI

Sebi may give fresh push to loan default disclosure by listed firms

PTI ■ NEW DELHI

Concerned over a massive, ₹11,400-crore fraud at PNB remaining undetected for years, markets regulator Sebi may give a fresh push to its "on-hold" proposal to mandate listed firms to disclose all loan defaults within a day.

While billionaire jewellery designer Nirav Modi, the alleged perpetrator of this fraud, is not directly linked to any listed company, his relative and business associate Mehul Choksi's Gitanjali Gems is a listed firm and has been involved in some other cases of suspected market manipulations.

Sebi has already launched a probe into trading and disclosure related issues in the matter of Punjab National Bank (PNB) and Gitanjali Gems in connection with the biggest fraud in the Indian banking industry so far, allegedly perpetrated by absconding Modi.

Ever since the fraud came to light last week, investors wealth has seen a massive erosion worth billions of dollars at PNB, Gitanjali Gems and several listed firms, including public sector banks with direct or indirect exposure to Modi.

With an aim to help investors take an informed decision at the earliest in cases of loan default, Sebi had proposed to mandate listed companies to make immediate disclosure about their loan defaults.

However, the proposal had to be put "on-hold" apparently after reservations expressed by the banking industry that such a move can create a panic like situation.

"With the PNB fraud coming to light, it has become important to ensure timely disclosure of even a small loan default rather than the situation to balloon into a major



The regulator plans to go ahead with its earlier proposal that mandated listed companies to disclose any payment defaults to banks and financial institutions within one working day of such a miss

crisis," a senior official said.

Sebi is planning to make a fresh push on its earlier proposal, although it is open to make a constructive changes to the proposed framework, he added.

The regulator plans to go ahead with its earlier proposal that mandated listed companies to disclose any payment defaults to banks and financial institutions within one working day of such a miss.

Earlier, the regulator had put off implementation of its directive "until further notice" that required listed firms to inform exchanges if they default on loan payments to banks and financial institutions, just a day before it was supposed to be implemented on October 1.

Banks had asked for more time for the rules as the Indian credit market was different from its Western counterparts where such a disclosure is mandatory.

Assocham urges Govt to cut stake in PSBs to below 50%

PTI ■ NEW DELHI

The fraudulent transactions of ₹11,400 crore detected at Punjab National Bank should act as a strong trigger for the Government to reduce its stake to less than 50 per cent in public sector banks (PSBs), industry body Assocham said on Sunday.

It argued that PSBs should then be allowed to function on the lines of private sector lenders with a full sense of accountability to their shareholders, protecting the interest of depositors.

The \$1.77 billion (about ₹11,400 crore) scam in PNB involves billionaire jeweller Nirav Modi allegedly acquiring fraudulent letters of undertaking (LoUs) from a branch in Mumbai to secure overseas credit from other Indian lenders.

"The PSU banks, ironically, are slipping from one crisis to the other and there is a limit the government can keep bailing them out at the cost of taxpayers' money, even if it is the principal shareholder in these lenders," Assocham said.

It claimed that top banking positions are treated as extension of a government job and the senior most managements spend bulk of their quality time, receiving and implementing directions from the bureaucrats even for innocuous issues.

"In the process, the core banking functions, including all important risk mitigation and management, take a back seat," it said.



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"Once the government equity in the banks is reduced below 50 per cent, there would be much more autonomy along with accountability and responsibility of the senior management," it added.

The boards should then be truly taking the policy decisions while the CEOs would run the banks with full authority, coupled with the commensurate responsibility, instead of looking towards the bureaucrats for directions.

It observed that the problem has become more grave with the banking sector adapting to new technologies which can prove both boon and bane, depending on how effectively

they are implemented.

Assocham Secretary General DS Rawat said it was time the industry also did some introspection.

"While we seek more autonomy for the banks, we from the industry must also set certain standards for us for ensuring a clean and best banking and business practices," Rawat said.

He called upon the Reserve Bank of India to take a lead and engage with the industry in finding ways to do clean business in the entire financial sector, be it the public sector or private sector banks or even the non-banking finance companies.

PNB fraud: Assocham urges govt to cut stake in PSBs to below 50%

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