

At Gems and Jewellery Conference FICCI introduces a think-tank on **FINANCIAL GROWTH**



Mr. Ashit Mehta
(Chairman, SRDSSL)

There have been reports of China seeking control on the output of diamond mines. (Your view)

Indian diamondaires employ 1 million workers and polish 95% of world diamonds today, requiring continuous supply of roughs to keep their factories running, a fact that is being exploited by all mining companies. Hence, Indian diamond processors end up bearing a premium on roughs. It is very important that India

makes aggressive moves towards acquiring stakes in diamond mines abroad in the continuing interest of **this sector diamond**; similar to what is seen in **Oil and Coal**. China has invested in Zimbabwean mines, a move that India should make given that Indian processing strength is best suited for Zimbabwe diamonds.

Mining countries are seeking a larger role in the value addition of the diamonds mined by them. How does this development affect India?

The argument of beneficiation has to be seen in the context of availability of requisite skills for the same. India has an uninterrupted knowledge of 6 decades in diamond cutting and polishing and it is hardly possible for any nation to replicate the skills and muster manpower adequate to challenge this. You would have often heard of the Chinese threat to Indian diamond industry. Let me tell you that there are 16000 Chinese workers employed in this industry in China of which at least half are employed by Indian companies.

What role should Government play in protecting the long term interest of this industry?

Let me tell you of an important development which was announced on Nov 4, 2011. Anglo American Plc (AAP) has agreed to buy Oppenheimer family's 40% stake in De Beers for USD 5.1 Billion in cash, ending the family's 80 year ownership in the world's largest diamond miner. The transaction will increase AAP's stake in De Beers to 85%. This development is very significant and the industry can expect higher aggression from **De Beers** in terms of deriving maximum value and the DTC sightholder arrangement may also undergo major changes. However, my point is that **such fantastic opportunities to acquire control on diamond assets should be aggressively encouraged and pursued by the Indian Government** putting its full weight **behind entrepreneurs by adopting a forceful foreign diplomacy. Banks should also open up their coffers to lap up such acquisitions which put the power of pricing in the hands of Indian companies.**

The Diamond industry as you see today is mostly built on the entrepreneurial prowess of Indian businessmen who have worked within the constraints of doing business in India. This is in stark contrast to China where the Government provides good infrastructure, flexible labour practices and most importantly strong sourcing tie-ups. Indian Government should acknowledge the contribution of the Indian G&J industry and

create a highly conducive environment to help it overcome the local and global challenges.

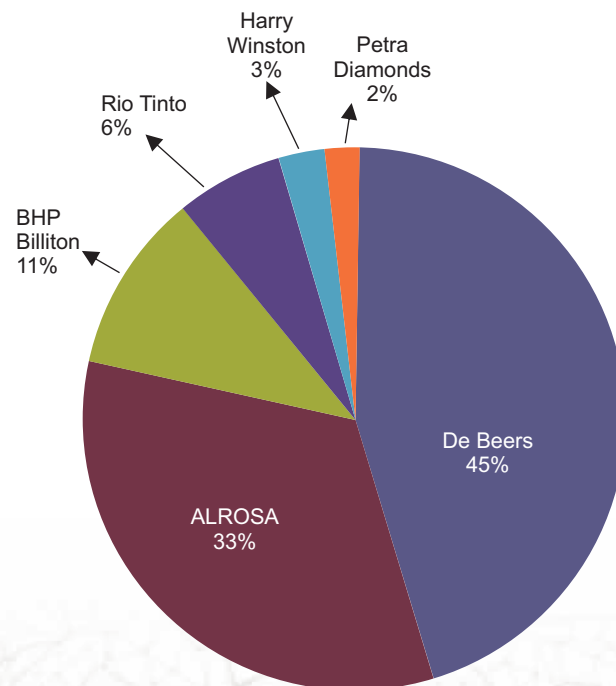
How has the banking sector responded to the needs of the industry?

Total bank credit in India is USD 550 Billion as against the incremental credit growth of USD 1.1 trillion each year in China. This alone will give you perspective on how capital starved Indian businesses are. Additionally, due to a few rotten eggs in this sector, banks have tightened lending norms in the G&J industry to an extent where it will be rendered uncompetitive in the long run. The banking sector needs to understand this industry much better to overcome their reservations. Besides this, the cost at which financing is made available is also a huge factor.

To conclude, what are your recommendations for providing relevant financing to this industry?

There are 3 key areas where the industry needs financing support –

1. Upstream i.e. sourcing of roughs directly from mines wherein bank should offer financial support to group buying efforts, acquisition of mines, etc.,
2. Downstream i.e. Indian industry will do well to forward integrate in the value chain by improving its branding and value proposition.
3. Banks should be encouraged to lend to players who are creating these differentiated models in retailing. You may have heard of Chow Tai Fook Jewellery Co., a Hongkong based jewellery group and DTC sightholder having 1000+ stores which has been valued at USD 24 Bln and will be shortly launching its IPO to raise USD 4 Bln. Finally, **this industry needs continuous availability of foreign currency financing at globally competitive rates to sustain and flourish.** ■



Diamond Sales at Select Mining Companies: USD 10.5 Bn in 2010

Resourceful Courtesy **FICCI & YES BANK**