

Gems and Jewellery- Shutdown and its impact

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Gems and Jewellery retail market in India is estimated to be at Rs. 3,90,000 crore out of which 30% are formal retailers. Recent developments in the industry suggests shutdown of two large players in the sector. In this report, we have tried to analyse the likely impact of these developments on the sector on international trade, domestic revenue and employment in the Gems and Jewellery industry.

How the story unfolded:

Punjab National Bank (PNB) alleged one of its former employees provided jeweller Nirav Modi and his associates with guarantees to obtain loans from abroad. Between 2011 and early 2017, guarantees worth Rs 6,500 cr were issued without any collateral, followed by another Rs 4,900 cr over March to May 2017. The total quantum of the alleged fraud is Rs. 11,400 crore. PNB filed complaints with CBI against Nirav Modi, his relatives and associates which includes Mehul Choksi, CMD of Gitanjali Gems Limited. This was followed by raid on premises and properties of the two groups by Enforcement Directorate and Income Tax department post which, all the assets of these companies were sealed. This has led to the two companies and its businesses being shut down.

About the companies involved:

Firestar Diamonds (or “Nirav Modi”- the brand) derived most of its revenue from its diamond cutting and polishing business. Its diamond sorting business caters to some of the largest players internationally. The company was also involved in designing and manufacturing of premium-end stone and diamond studded jewellery. The company operated jewellery stores at New York, Beijing and Hong Kong apart from the flagship stores in Mumbai and Delhi. But revenue from its retail business was insignificant as a percentage of the company’s overall revenue.

Gitanjali Gems was present in both import-export of gold and studded jewellery, and retail jewellery business in 200 cities in India and top markets abroad.

Impact on industry financials:

Important financial indicators of a set of 34 companies for the three year period: 2014-15 to 2016-17 is presented below in Table 1. (Firestar has been included for 2014-15 and 2015-16 in this sample and is excluded from 2016-17). Firestar Diamonds reported standalone revenue of Rs. 1,581 crore and 1,945 crore in 2014-15 and 2015-16 respectively. Gitanjali Gems reported Rs. 7,157 crore and Rs.10,750 crore during the same period. **With these two companies now being closed the 2015-16 sales would be lower at Rs 66,237 cr thus reducing the size by 16%.**

Table 1: Financial Performance of the Gems and Jewellery Industry (in Rs. Cr)

	2014-15	2015-16	2016-17*
Net Sales	74,559	78,932	85,652
Employee Cost	985	1,025	1,100
EBITDA	3,948	3,732	3,952
Value Added(Industry)	4,933	4,757	5,052
Value added to sales	6.6	6.0	5.9
PAT	1,699	1,758	1,819
PAT Margin	2.3%	2.2%	2.1%
Impact on Revenue	12%	16%	12%

*Excluding Standalone Financial data for Firestar Diamond due to unavailability

Source: ACE Equity and Fortune

Employment and layoffs:

Gitanjali Gems is among the largest jewellery retailers in the country. The two companies- Gitanjali and Nirav Modi employed 648 and 2,200 employees respectively as per filings in March 2017. A combined 3,000 persons would be rendered jobless and another 7,000-8,000 temporary workers and employees at franchisees are expected to be affected. The sector employed 22,000 people as per data available for 22 companies of this sample of 34 companies and the two companies constitute 12-15% of the total industry workforce excluding craftsmen and temporary employees.

Impact on foreign trade:

Table 2 below shows net import and export of gems and jewellery during the year 2015-16 & 2016-17. They accounted for around 13% of exports and 8% of imports in 2016-17.

Table 2: Foreign trade in value terms (\$ billion)

	2015-16	2016-17
Import	24.3	28.8
Export	32.6	35.5

Source: GJEPC India

The recent development is expected to impact the export-import in value terms. Gitanjali Gems Limited and Firestar Diamonds together accounted for 5.8% of the diamond and jewellery trade in value terms in 2015-16.

Table 3: Export-Import in in value for Gitanjali and Firestar (in \$ billion)

	2015-16	2016-17
Imports (Value-GGL)	0.7	1.13
Exports (Value-GGL)	0.9	1.13
Trade Value (FDL)	1.8	NA
Total(\$ billion)	3.4	NA
Impact on foreign trade (imports plus exports)	5.8%	NA

1\$ ~ Rs. 65 Source: Financial Statement- Gitanjali Gems, For Firestar from other Sources

The shutdown of the two companies would have an impact of 5-6% on the diamond and jewellery foreign trade in value terms over the next year i.e. 2018-19.

Credit Perspective:

Total credit outstanding to the sector as of December 2017 is Rs. 69,000 crore. This constitutes about 1% of Rs. 72.63 lakh crore i.e. gross bank credit.

Stressed assets ratio for the banking system as of September 2017 was 12.2%. Gems and Jewellery sector reported 11.7% stressed advances ratio which was lower than the sample average. With these two companies having reported borrowings of around Rs 16,000-17,000 crore (as per annual report and other sources and assuming there are no other loans from other banks than is reported), overall gross NPA ratio for this sector based on o/s as of December 2017 (including the contingent liability falling due) and stressed assets as per RBI data for September 2017 would work out to around 30%.

Conclusions:

The most likely impact due to the shutdown of these two companies would be:

- Foreign trade in jewellery to come down by 5-6% for 2018-19.
- Sales to be impacted by around 16%
- Employment to come down by around 3,000 permanent staff for these two companies which could impact another 7,000-8,000 non-permanent staff directly and indirectly.
- A simulation analysis shows that NPA ratio could move up to at least 30% for this sector from 11.7% as of September 2017.

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