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POWER TALK



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HIPSHOT



P. KOTHARI

Prithviraj Kothari, President, Bombay Bullion Association & Managing Director of the mammoth Rs.17,500 crore RS Bullion Ltd (RSBL) speaks to B&E's Mona Mehta on the company's overseas acquisition plans, growth ambitions and the general scenario in the gold and silver market

B&E: You have been recently appointed as president of Bombay Bullion Association (BBA). Amidst rising gold & silver prices, what will be your agenda for the yellow & white metal market?

PK: Firstly, we want BBA to be recognized as an industry body on a global platform. This is because currently, some 1 million Indian families are involved as artisans in the gold & silver jewellery market that generates a business of Rs.8 trillion. Hence, we feel that their demand should be met at par with that of international standards. Besides, we feel that there has to be a rise in arbitrage in the Indian gold market. Currently, BBA boasts of 460 members from Mumbai & plans are to increase the number of members to 1,000 from the international market. To start with, the officials of London Clearing Exchange (LCE) are arriving in India & would be meeting the BBA board

of directors (to set up an LCE branch here). Clearing Houses are organisations associated with an exchange to handle the confirmation, settlement & delivery of transactions, hence fulfilling the main obligation of ensuring that transactions are made in a prompt & efficient manner. They are also commonly referred to as “clearing firms” or “clearing houses”.

B&E: What would be the function of the London Clearing House (LCH) & its warehouses in India, once LCH is set up in India? How will it benefit the individual companies trading in bullion exchanges & also the members of the Bombay Bullion Association?

PK: The officials of LCE are arriving in India to set up a clearing house in order to take responsibility of stocking & delivery to SEZs & international clients. In case the order has been taken & the sup-

plier is short of stock, then he can make an order with the Clearing House to deliver the stock and the party will make the payment. The purpose of the visit of LCE will also be to set up London Clearing House and warehouses in India. Since India's economic growth is expected to cross 9% by the end of this fiscal, international trading firms are eyeing it as an investment destination.

B&E: Is RSBL also looking at acquiring gold mines in the overseas market? If yes, what are your plans with regard to funds in this regard?

PK: Yes, RSBL is planning to acquire two to three gold mines in US. The initial requirement for acquisition of mines would be around Rs.2 billion, which we will raise within one year through banks. And in the next two to three years, RSBL is planning to come up with an initial public offering (IPO) with an aim to raise Rs.3-4 billion.

B&E: But what will be the rationale behind acquiring mines?

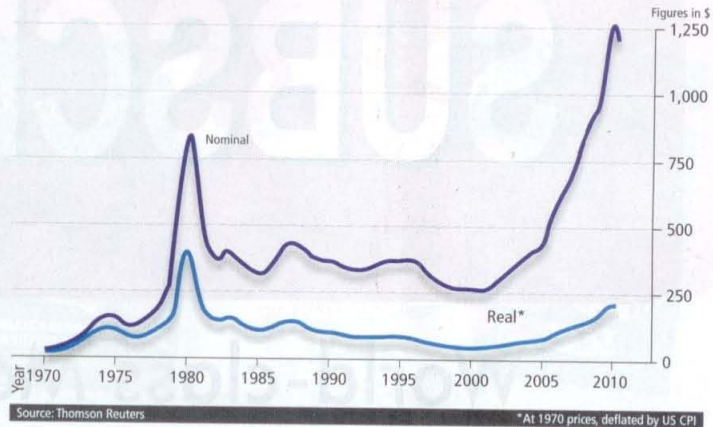
PK: Once we acquire mines in US, we will look at setting up exclusive branded traditional jewellery retail showrooms in India, so that we can source gold from the acquired gold mines in US and make bars and coins to sell them through the upcoming showrooms in India. Besides, we will source 2000 carat diamonds from the local market to make diamond jewellery and sell them through the showrooms. Currently, apart from having 200 in-house designers, we have recently roped in four exclusive designers to design exclusive jewellery for us, which will ultimately be sold as private labels through our exclusive jewellery showrooms. For the purpose, RSBL is planning to invest around Rs.500 million.

B&E: Tell us about RSBL's production expansion plans for branded gold bars and coins? With the move, what sales revenue increase is RSBL hoping to achieve by the end of this fiscal?

PK: During the financial year 2009-10, 5000 tonnes of gold was imported, from which RSBL's contribution was 60 tonnes

Gold prices denoted in \$ per troy ounce

The charms of the yellow metal have refused to wane over the years



in terms of production. Of the 60 tonnes produced by RSBL, 1 tonne was converted into gold bars. Now, RSBL plans to expand the production of gold bars five times more during the next fiscal and increase gold production to 95 tonnes. During FY 2009-10, RSBL had posted sales revenue at Rs.175 billion, which we hope to increase to Rs.250 billion by the end of this fiscal. RSBL is looking at setting up subsidiary companies each in Hong Kong and Singapore to meet the rising demand for gold bars, coins and gold ETFs. As far as the Indian market goes, we currently have 18 branches and plan to add 1,500 retail jewellers subsequently going forward.

B&E: Despite achieving a turnover of Rs.178 billion during FY 2009-10, RSBL has posted a minimal net profit of Rs.130 million? Why is it so?

PK: Trading in gold is a small margin business. Hence, even though we have achieved a decent turnover, our net profit figures were minimal, compared to our revenues. Even during 2008-09, RSBL recorded a turnover of Rs.95 billion, but the net profit was minimal at Rs.70 million.

B&E: Of late, how has the gold buying mood in the market been?

PK: During this financial year, there has

been a 26% rise in gold prices compared to the previous financial year. Amidst the scenario, in the same period, the gold market has witnessed 50% value growth and 25% volume growth. In terms of volumes, the gold market has witnessed an increase in imports from 500 tonnes to 750 tonnes. So, despite soaring prices of gold, consumers apparently still continue to buy this metal. I therefore believe that India will continue to be a growth story going forward due to the rising demand even if silver touches the Rs.1 lakh mark per kg in the next two to three years, and even if gold prices continue to soar.

B&E: What future do you foresee for assets held on gold-backed exchange traded funds (ETFs) in India?

PK: In 2011, we will see a phenomenal growth in the ETF segment. I feel that the assets held in gold-backed exchange funds in India may surge to a record for the second year as demand gains, investor awareness spreads and as more products are introduced. Gold for immediate delivery has gained over time. The metal, which climbed to an all-time high of \$1,431.25 in November 2010, gained for the 10th year overall in 2010 as investors sought protection from weaker currencies, the European debt crisis as well as the resurgent inflation. **B&E**