Gold import curbs send jewellers scrambling for funds to pay back debt

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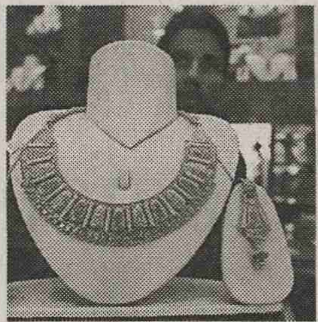
THE non-availability of credit for gold import has increased the risk of bad loans in the jewellery sector as several companies are seen scrambling for funds to payback their already availed loans, say industry insiders.

In June, the Reserve Bank of India (RBI) had stopped the credit facility available for gold imports by jewellers and manufacturers as part of its initiatives to curb the gold offtake.

The credit facility with an interest rate of 4 to 6 per cent was available for a period of up to 180 days. Those who had availed it earlier have to repay them within 180 days.

"The non-availability of credit facility has a negative impact on the sector, especially among the organised players who have been availing the facility. It runs a risk of non-performing assets in the sector. We have started seeing bad loans in the sector because the jewellers, wholesalers and manufacturers who have been availing the facility will have to repay the loans in six months," said Haresh Soni, chairman, All India Gems and Jewellery Trade Federation.



Big risk

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"They will have to raise money at a higher interest rate to repay the credit they had availed prior to June. Many jewellers were using the facility to replenish stocks in their stores. The gold demand has been less these days and liquidating stocks to raise money has been difficult for many. In the coming days, we will witness bad loans in the sector," added Prithviraj Kothari, managing director of Riddi Siddhi Bullions.

Gitanjali Gems has approached banks seeking re-alignment of its loans from non-fund based to fund-based ones after the letter of credit facility has put pressure on its balance sheets.

According to Soni, the sector had been using the facility for hedging purposes and it had not resulted in increased consumption as is widely perceived.

"The government should have given a 12-month notice for any modification of capital margin norms to jewellers bring in additional capital. Treating businesses like this is why the industry loses respect of the government. Businesses should be treated as assets and not liabilities," said Vinod Hayagriv, past chairman of GJF.

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