

In aftermath of Modi-Choksi scam, Surat diamond industry fears erosion of trust

BY MAULIK PATHAK & AMISHAH

SURAT/MUMBAI

The Rs11,400 crore fraud at the Punjab National Bank, involving diamond-taires Nirav Modi and Mehul Choksi, has rattled the participants of an industry that is run on trust. While some diamond merchants in Surat, the global hub for cutting and polishing this precious stone, bemoaned the trust erosion, others claimed that they had already stopped dealing with Choksi of the Gitanjali Group.

"Our word is what matters the most in this industry," said a top official at a big diamond house on condition of anonymity. He said his company had stopped dealing with Choksi's Gitanjali Gems about 12 years ago after the company failed to make some payments on time. The diamond business works on credit which ranges from 30-180 days and the diamonds are sold only on reference basis.

Others echoed his views.

"I feel that the complete picture is yet to come out. Many people in the industry had stopped trading in diamonds with Gitanjali from last five to seven years due to issue of timely payments," said Babubhai M. Gujarati, president of Surat Diamond Association.

Surat is the hub for diamond cutting and polishing and about 90% of the world's rough diamonds are processed here. All the big diamond houses have facilities here and trading in India is usually done through their Mumbai offices. According to estimates by Surat Diamond Association, imported rough diamonds worth Rs1 trillion came to Surat in 2016-17.

"Gitanjali has been a sight-holder for De Beers' Global Sightholder Sales in the past for buying rough diamonds. I don't know the current status but Choksi's business has been more of synthetic diamonds that are very popular in the US," said Gujarati.

Another diamond baron in Surat who also spoke on condition of anonymity said his



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company had supplied Modi with diamonds a few years ago but had taken advance payment. He had also experienced payments issue with Choksi in the past and said the general perception in the industry was that the duo was looking for quick fame and money. "But I don't think that we or anyone else had an idea that they would do such a big fraud," the official at the second diamond house added.

An email and a text message

sent to Choksi were not answered as of press time.

"The sad part is this will impact trust in the diamond market. There will be tightened norms, and dealing will get difficult not only with the financial markets but also even within the diamond market," said Ashit V. Mehta, chief executive officer of Arjav Diamonds (India) Pvt. Ltd.

The fear runs deep.

"There is zero impact on the diamond industry as of now.

Also, so far, no diamond baron or diamond company has come forward and claimed that Modi and Choksi have duped them," said Dinesh Navadiya, former president of Surat Diamond Association and promoter of Tiku Gems, a medium-scale diamond firm. "But what I fear is that bank loans, especially for small diamond businesses, will become extremely difficult. Already, banks have not been very keen in giving loans to small diamond merchants and now this (has happened). My own loan was rejected in 2009 by a nationalized bank saying that they don't give loans to diamond companies," he added.

According to Navadiya, the whole episode could have been prevented had the government taken action against Winsome Diamonds a few years ago.

"I had filed an RTI (Right to Information Act) asking the Reserve Bank of India (RBI) to explain why and how such a large loan was given to Winsome. I got a reply saying that they do not have this information," said Navadiya.

Winsome Diamonds and Jewellery Ltd was declared a wilful defaulter and owes Rs4,680.04 crore to a consortium of lenders led by Standard Chartered Bank.

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