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Slack global demand, virus to cut diamond exports 20%

Stretched receivables will test the credit profiles of exporters

India's diamond exports could shrink by a fifth to ~$19 billion by the end of fiscal 2021, from $24 billion in fiscal 2019, as the novel coronavirus (n-CoV) outbreak amplifies sluggishness in global demand.

In the first nine months of this fiscal, India's total diamond exports by value were down ~18%, on-year. About 40% of these exports are to Hong Kong, which has seen dysfunctional local markets over the past year or so. Moreover, there has been no diamond exports to the island since January 15 this year.

Says Subodh Rai, Senior Director, CRISIL Ratings, "Exports would continue to fall in the closing quarter of this fiscal, which typically accounts for roughly a third of India's exports to the south-east Asian region. Given extended holidays in the region and shutdown of markets in the aftermath of the n-CoV outbreak, exports worth over $1 billion may be lost in this quarter alone."

The n-CoV impact couldn't have come at a worse time for an industry that has been buffeted by tepid demand, declining realisations, and the ongoing political conflict in Hong Kong. Even if the n-CoV outbreak is contained in the next two months, trade normalcy and demand uptick from Hong Kong is unlikely before the middle of next fiscal. Consequently, exports next fiscal would remain down or be at best flat because any traction in the second half would be offset by the weak first half.

Says Rahul Guha, Director, CRISIL Ratings, "More testing would be a stretch in payments from Hong Kong. So far, these have been on time. However, bulk of the payments have just started falling due. That's because, a large part of the sales took place after October 2019, and bills are generally discounted for 90-120 days. And any further delay in the revival of business in Hong Kong would weigh on the liquidity profiles of Indian exporters."

That said, a few factors do help cushion the blow.

For one, Indian exporters avail of post-shipment credit from banks tantamount to 60-70% of their export receivables. Also, Indian banks typically fund no more than 90% by value of the bills presented under post-shipment credit. That means more than 40% of the cash flows available in the system doesn't typically have underlying bank liabilities, and can be used by exporters during exigencies.

Also, the other significant export markets for Indian diamonds include the US, with 35% share, followed by the EU, the Middle East, and Japan along with the rest of South East Asia, with about 10% each. The average receivable cycle for sales to the United States and the European Union is 45-60 days, which helps ease cash-flow pressures.

Besides, the industry has been making representations to the government and the Reserve Bank of India, seeking extension on bills discounted for sales made to Hong Kong and China. This will be a monitorable in the near term.

CRISIL's analysis factors inputs from its rated portfolio of 114 diamond exporters, which represent more than 30% of the industry.

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