

Press Release

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Diamantaires, cut by pandemic, stare at decadal-low revenue

Stretched receivables from across the globe to test their credit profiles

Revenue of India's diamond polishing industry is set to plunge in fiscal 2021 to a decadal low of \$13-15 billion, compared with the \$24 billion in fiscal 2019, and an estimated ~\$19 billion in fiscal 2020.

Twisting the knife for India's beleaguered diamond polishers is the shift in the epicentre of the Covid-19 pandemic to the US and the European Union from China.

Exports to these two geographies, which together account for over 45% of India's polished diamond exports, fell a staggering 41% on-year in February as the pandemic intensified, and have plunged further since then, especially with the nationwide lockdown starting mid-March.

Exports to other markets suffered, too. In Hong Kong and China, which account for about 45% of the exports, demand for luxury goods such as diamonds, jewellery and watches is estimated to have nosedived by 79% in February and even further since then.

Assuming the pandemic starts subsiding by June and trade channels normalise over the next quarter, CRISIL expects a revival in demand to be pushed into the second half of the fiscal.

The analysis factors inputs from its rated portfolio of 114 diamond exporters, which represent more than 30% of the industry. The reduction in sales, coupled with potential inventory losses, cannot but impact the profitability of Indian diamantaires in fiscal 2021.

Says Subodh Rai, Senior Director, CRISIL Ratings, "The inventory levels are estimated to have increased 15-20% over the March quarter. With the pandemic hitting all major global markets, prices fell by an average 7% across various cuts of polished diamonds in March 2020, which means likely inventory losses."

Meanwhile, cash-flow challenges will continue to test the liquidity profile of Indian exporters.

Importers from Hong Kong and mainland China buy polished diamonds from India on 120 days' credit compared with 45-60 days by importers from the US and the EU.

In February, even as payments from China started tapering, those from the US and the EU were regular. However, since March, payments from across geographies have reduced to about 25-30% of the actual monthly dues. This could test the ability of the Indian exporters to clear the maturing post shipment credit on time.

Indian banks have been extending the due dates on such post-shipment credit bills by 60-90 days on a case-to-case basis.

Says Rahul Guha, Director, CRISIL Ratings, "There are several monitorables in the road ahead. In the immediate term, the crucial one would be the frequency and quantum of payments by importers. Over the near to medium term, the credit risk profiles of Indian diamond polishers will be tested given declining scale of operations, pressure on profitability and elongated working capital cycle."

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