

DIAMONDS

A Cut Above the Rest

Eleven rough diamonds are cut and polished every second in India which has now become the largest diamond processing nation, earning a net foreign exchange of Rs 1,200 crore this year. A report on the burgeoning industry which is mostly controlled by Gujarati businessmen.

As the elevator climbs the floors of Prasad Chambers, a 16-storey walled compound in central Bombay, the offices come into view, one after another: Samir Diamonds, B. Arunkumar, London Star, Ratilal Bechardass. They call it one of the wealthiest buildings in Bombay, although to look at it is

shabby, rundown and the elevators don't often work.

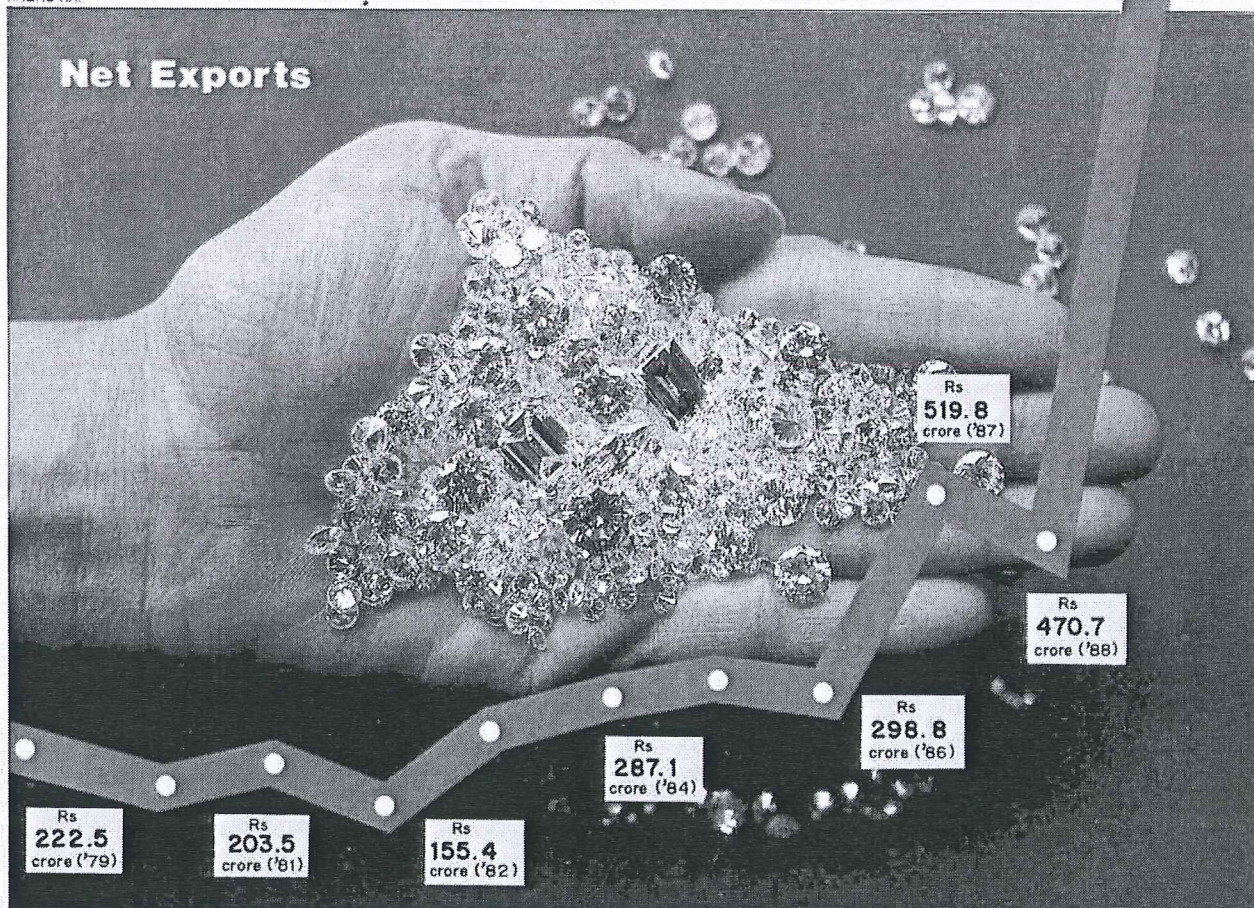
Inside, the offices are richly carpeted, a close circuit camera monitors all movements and armed guards move from floor to floor. A visitor cannot just walk in: he rings a bell, is identified through a peephole and only then will an electronic

buzzer open the door. There's quite another world inside this



Rs
1,200
crore ('89)

RAGHU RAI



Two out of every three diamonds anywhere in the world are now processed in India, making it the largest diamond cutting centre in the world. In the last two decades, over 7 lakh people have flocked around India's diamond rush.

forbidden area. Diamonds—rough, polished, big, small—worth millions are casually strewn on tables while buyers from across the world make their selections. Every 10 minutes an international call is made and deals worth crores finalised while a clock in the shape of a supersonic jet ticks away the time—in Tokyo, Tel Aviv, London, New York. Come nightfall, and the diamond barons, in their Mario Barutti suits and Gucci shoes, slip into one of the several Mercedes parked outside and disappear into a boom, a global diamond lust, that shows no signs of stopping.

This is India. A poverty-stricken nation that has slowly and steadily been chipping away at the global diamond trade to become, today, the largest and most important diamond processing nation in the world. Every second, India cuts and polishes 11 diamonds that come from mines in the Soviet Union, Australia,



Botswana and South Africa.

It is estimated that two out of every three diamonds anywhere in the world—Zales, Cartier, Kay, Fortunoff—have been processed in the dirty by-lanes of Surat and Navsari. In the last two decades, 7 lakh cutters have flocked around India's diamond rush: the rest of the world, put together, has only 50,000.

ITS exports have also made a steady climb: from Rs 690 crore in '79—to Rs 4,400 crore this year (since all diamonds are imported, this actually means a net foreign exchange earning of Rs 1,200 crore). The industry has already

NAVAG BHOLJANI



Diamond merchants have repeatedly clashed with tax officials. Last month's strike cost Rs 25 crore per day in foreign exchange.

crossed the thrice-upgraded export target for the current year, a record growth of 70 per cent.

The harvesters of this boom have been a handful of simple, young Gujaratis—Bharatbhai, Vijaybhai, Arunbhai. "Today they are India's richest community," said an industry watcher. "They are the world's finest diamantaires. Their arms reach across several nations." They are also some of India's top buyers of antiques, imported cars and art—including M.F. Husain's painting on Salfar Hashmi that went for Rs 10 lakh recently.

Why then is the industry on edge?

Last month, the entire trade ground to a halt and began to move full page advertisements in newspapers: "Diamond industry driven to despair"; "Will we be allowed to retain number one position?"

On April 7, over 50,000 diamond merchants—wearing white shirts and black arm bands—converged on Bombay from different parts of the country in a dramatic show of unity and a protest against what they call "an intolerable level of harassment" by way of raids and rude treatment by tax officials.

Just a month earlier, Finance Minister S.B.Chavan is reported to have given them full assurance that if "merchants are acting within the law, I can assure you nothing of the sort will happen again".

The confrontation brought into sudden and dramatic focus India's rise in the glittering global diamond trade and the enormous clout that dealers have begun to wield at the Centre.

Who are these people? Basically, they are a small religious community of Jains that grew to their present opulence and power from a quiet street in Palanpur, one of Gujarat's most backward towns. They were small traders who occasionally went abroad to buy diamonds for maharajas. In 1954, one of these Palanpuri Jains brought back two Belgian cutters to learn how to cut rough diamonds. In that little town, about 20 years ago, India's diamond cutting explosion started.

The Jains, with an uncanny marketing savvy, realised that they could handle small stones that the Jews—who for years have dominated the cutting trade—sneered at. They also realised that the middle class American woman had begun to earn her own money and wanted a taste of luxury too. The jewellery market was expanding to make room for small, cheap stones—and mountains of these stones were building up inside the Diamond Trading Corporation (drc) (the marketing arm of De Beers, the South African syndicate that controls the trade).

"A stone you can't catch, our people cut and polish," said Jatin Mehta, 32, chair-

man of Su-raj Diamonds (group turnover: Rs 160 crore), and of the Gem and Jewellery Export Promotion Council.

In 1957, the Replenishment Scheme came in which made it possible legally to import rough diamonds into the country, as long as they were exported again. Several men of the community worked for 16 hours a day, bent over old fashioned *ghantis* (wheels), cleaving the rough stones themselves. They lived in small houses and earned a few hundred rupees a month. The next generation was born some years later, with a Mercedes-Benz already parked in the garage.

Rapidly, the Palanpuris wove a web around the world, a syndicate of operators with unparalleled marketing strategies. Anywhere there were diamonds, a Palanpuri landed up and opened office. Almost all the big firms in India now have an Antwerp cousin that supplies it roughs and acts as a sensor for the trade. Antwerp also has a cousin in Hong Kong who has one in New York and so on.

In Antwerp—the world's trading hub—there are over 350 Indian, mostly Gujarati families buzzing around the four diamond bourses rubbing shoulders with the wealthy Jews in their black coats and top hats. "Forty per cent of the diamond business in Antwerp, amounting to \$9 billion (now Rs 13,500 crore), is controlled by Indians," said Kantilal Chhotalal (turnover: Rs 40 crore), godfather of the industry. Four Indians are among the top seven in Antwerp, with empires of over \$500 million (now Rs 750 crore). They buy diamonds from DRC, send them to India for cutting, and then buy most back.

The diamonds fly into Sahar Airport, Bombay, in sealed packets and a secured van drives them into the city every morning. At any given time, a sightholder (only he has access to DRC auctions) has stones worth Rs 15 crore to Rs 20 crore, which he gets cut, polished—and re-exported within 105 days, now with a handsome 30 per cent value added.



World jewellery manufacturers regularly visit Bombay to buy them. Many don't even do that. They simply order them on the phone—the same way one would a pizza.

THE entire trade runs on trust: from the packets that are prepared at the DRC auctions—no sightholder would dare open them to check—through the *angriyas* (couriers) who carry the diamonds on second class trains between Bombay and Surat and to the buyer, who has to trust the value the seller puts on the stone. There's no paperwork.

In Surat, artisans work in unventilated, cramped rooms. The new industrial parks attempt to lift them out of this misery.



no guarantees. Business worth crores is finalised by the traditional handshake.

The industry grew to its present size on the strength of the small, cheap diamond, which needs a high labour input. Diamonds, the size of a pin-head, that without India, the DRC—the cartel body that controls 85 per cent of the roughs—would have had to throw away. India's main edge is its cheap labour—Rs 1,000 per month as against Rs 25,000 in Belgium.

Three major developments helped give a further fillip to the industry. One was Australia's huge Argyle output—it is so hard and labour-intensive that only Indian craftsmen can handle it. Second, the popularity of the *pave* (pebbled) setting in jewellery absorbed small Indian diamonds in a big way. And most important, the last decade saw the rise of Japan, a market that did not even exist before.

De Beers, through its fantastic promotional campaigns, took a zilch consumer, told it that "a diamond is forever" and made them believe it. "Japan, Korea, Taiwan and Hong Kong. These four major tigers are roaring in the Pacific," said Madhu Mehta of Jayam, Antwerp (global turnover: \$500 million). "Suddenly we've got another America on our hands."

Today Japan drives the global trade. Over 70 per cent of all brides get a diamond engagement ring, thanks to De Beers' sentiment marketing. The US too will continue to buy; a recent survey showed that Americans valued diamonds second only to vacations, but way above other luxuries. This year De Beers will spend another \$130 million on ad campaigns, creating new markets. For instance, coming up are diamonds for men and as graduation gifts.

Indian diamantaires insist that they have "democratised" diamonds. Not only are diamonds forever, thanks to India, they are now for everyone. Says Vijay Shah of Vijaydiamond, Antwerp (global turnover: \$400 million): "As long as there are women,



ANTWERP

Diamond Rush

ANTWERP has been good to Indian diamantaires. Many began literally by touting their ware from a briefcase, moving like nomads from manufacturer to manufacturer. One of the first few came with a wife and a *chakki* (grinding wheel) to make *atta*. Several began their meteoric rise from shabby apartments in the run-down area around the station, with just a tourist visa.

The growth was quick, and the Indian community began its rapid expansion only about seven years ago. Banks willingly gave credit to Indians (there are fewer risks involved in cutting the small stone), the Government welcomed them and, as the prosperity grew, even relaxed laws so that the vegetarian Gujaratis could import their cooks into Belgium.

Today they are the diamond czars. They live in opulent villas, have a retinue of servants, their children spend week-ends skiing in St Moritz. The prime minister drops in for their parties and Nicholas Oppenheimer, the boss of De Beers, knows them personally.

Life is good and with an unfailing back-up service from home, they have the best of both worlds. This year, Dilip Mehta, 37, of Rosy Blue (global turnover: \$488 million) is bored. Everything

Madhu Mehta (top) and Dilip Mehta: global network

has been growing so rapidly and so well, there is no challenge left to him. He's already outstripped his targets.

They say the most fabulous house in Antwerp belongs to Vijay Shah, 39. Some call him the film star of the trade. It took him five years to build because, as he says, "I did not want to buy anything from a shop. I wanted everything custom made." In the gardens, the fountains play all day between the ancient statues bought from Rome. Fat

Vijay Shah: sparkling success

ducks sit lazily, looking as if they had been put there for decoration.

Inside, there are nine bedrooms, two glass elevators that go up and down floors, a discotheque with lights that dance to the music, a see-through swimming pool, a health club, a movie theatre, bathrooms crafted in onyx, several drawing-rooms, and a dining-table for 24, plated in gold. Shah also

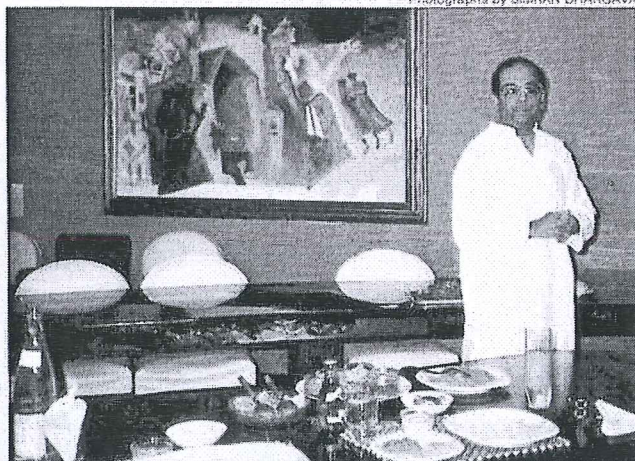
has six servants (including two Belgians) who serve up pure Gujarati food. "Here we have everything," he says. "In India, everytime you go to office, you're worried that taxmen could be waiting."

And yet among the Indian tycoons abroad, there is a strange resentment. They have everything: money, power, glamour. But no recognition from back home. As Madhu Mehta of Jayam puts it: "There are diamond companies in India

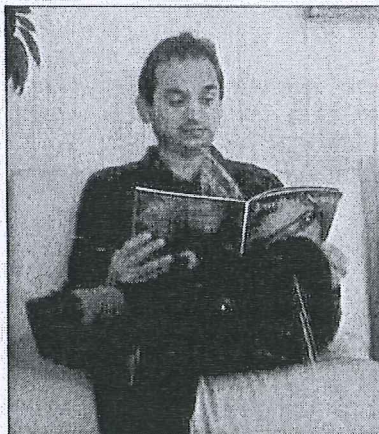
with over Rs 100 crore turnovers. Is there even one that is recognised by the Government? Is anyone called for Republic Day parades? Is anyone given awards?" In India, an Abhay Oswal or a Vijay Mallya makes it again and again to the covers of magazines while they are tucked into pages five and six of the financial papers. Their relatives only know them as "the rich uncle in Antwerp". Success, without recognition, does not warm the heart.

Do they have any regrets about leaving India? "We have regrets for India," says Dilip Mehta. "But not for leaving it."

—SIMRAN BHARGAVA in Antwerp



Photographs by SIMRAN BHARGAVA



we'll sell diamonds."

Being cheaper, Indian diamonds have an edge in bad economic times. People don't stop buying sentimental products, they just move to the small diamond. After all, even if it is tiny, a diamond still radiates its message of love and constancy.

"For the diamond trade, 1988 has been one of the best years ever," says I.P. Hazarika, chairman, MMTI whose diamond division grew from Rs 14 lakh in 1982 to Rs 30.68 crore in 1987. India processes 65 per cent of the world's production of \$18 billion, though this is only 40 per cent of the value. Its contribution is to fashion, not to portfolio building. As Nar-

are an industry without frontiers."

Yet what seems like a dazzling—hunky-dory—diamond industry in India is circled by a barbed wire of suspicion that keeps it bristling. Every diamond merchant fears entering his office and finding a taxman waiting. "Diamond traders think that because they bring in so much foreign exchange, they should be immune from investigations," said an official from the Central Board of Direct Taxes. "But every time we have searched them, we have come up with unaccounted stocks or cash."

The trouble arises because the trade works in strange, mysterious ways. No

PALASHRANJAN BHALLMIK



Diamond dealers are among the country's top buyers of antiques, imported cars and art—including Husain's recent painting on Hashmi.

endra Mehta of Samir (group turnover: Rs 90 crore) said: "Let's not build huts and say we're making the Taj Mahal."

The industry has now begun the move into large stones, known as sawables. A big stone is a terrific hedge against rupee devaluation. For instance, a woman who bought the classic investment stone—a one carat round brilliant—in 1978, for \$8,000 can today hawk it for \$18,000.

Recently, with the amendments to the restrictive Gold Control Act, there is an electric excitement in the air: a new finished jewellery market (diamonds studded in gold) is coming into view, with its huge \$39 billion (now Rs 58,500 crore) potential. As diamond traders like to put it: "We

one can establish the value of a diamond: it can be switched, replaced, overinvoiced, underinvoiced, slipped into the domestic market. No one knows for sure when and how this happens.

"This trade has us foxed," confessed a harassed official. "If all the diamonds that come in are supposed to be exported, how the hell is the Rs 350 crore domestic market being fed?" Legally, each packet of diamonds should have a *jhangad* (consignment note) attached. Several don't.

A large part of the trade is in fact carried on in the backstreets of Zaveri Bazaar, Bombay, where in a daily afternoon frenzy, diamonds worth several crore, wrapped in white tissue packets,

JEWELLERY EXPORTS

Grand Designs

A whale has appeared in the Indian Ocean. A huge, gigantic whale with a \$39 billion appetite for studded jewellery (diamonds set in gold). India—for all its diamond cutting prowess—feeds it only a crumb of Rs 50 crore. "Now, with the amendments to the Gold Control Act, the floodgates have been opened," says Jatin Mehta. "Seven out of 10 diamonds anywhere in the world go out of India. Imagine the value addition if we are able to stud these. Given a fearless atmosphere, we could erase the entire budget deficit in six years."

The Gold Control Act was so draconian that when it was announced in 1962, several goldsmiths committed suicide. The Act limited the amount of gold a person could hold to a trifle. It also did not allow it to be moved from place to place. Said a jeweller: "Gold control was exercised more in its breach than in its compliance."

The recent amendments allow a jeweller to work with standard, 22 karat gold, available at international prices, provided it is exported out of an export zone. Already, several factories have come up in the last few months.

Industry estimates are that export of studded jewellery could leap from Rs 70 crore in 1988 to Rs 250 crore in 1989 to Rs 1,000 crore in 1991. Foreign designers are flying in and the

DIAMONDS

Eternity Stone

DIAMONDS were formed three-and-a-half billion years ago. They are found in the most hostile of places: in river beds, in volcanic pipes and alluvial deposits. An average of 250 tonnes of diamantiferous rock has to be mined and processed to produce a one carat diamond, which is something like hunting for a single leaf in a tropical jungle. But once it has come into the world, it is indestructible.

Today it is an international product, passing through four continents before it adorns a woman's hand. Over the years, the diamond has acquired a

Indian bangle is on its way to Japan.

Unfortunately, the benefits only trickle down to the big guns who have factories in export zones. Private jewellers who have to buy gold from the local market can never compete. Worse, the Government harasses them with mountains of paperwork—till last year, they had to fill out 47 forms. Says Rakesh Khanna, a Delhi jeweller: "A person who doesn't have the temperament for lobbying or paperwork can't last."

Fashion trends: untapped potential

Courtesy: SOLITAIRE

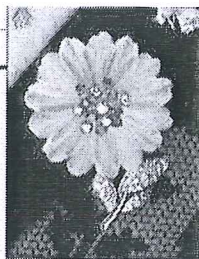


unique status as a gift of love and a magic that nothing else has.

The beauty of a diamond depends on the way it reflects light. The skill of the cutter is to shape the stone in such a way that light bounces around and through it, to bring out the fire in the stone. Ideally, a diamond should possess no colour at all, it ought to resemble a piece of ice.

The five C's to look for while buying a diamond are: cut, carat, colour, clarity—and confidence in your jeweller. "You're selling illusion after all," says Bharat Shah of B. Vijaykumar. "So you have to sell confidence first."

The largest sale is in the form of rings—the eternity band, formed through a circle of diamonds is a symbol that "my love will run out at the circle's end".



quickly change hands. A US journalist who witnessed this bizarre scene wrote: "The trading pace and decibel level could rival that of the New York Stock Exchange." Several of these stones then leak into the domestic market.

The diamond merchants, however, feel that—since they provide so much foreign exchange and employment—minor leakages should be overlooked. And that taxmen—who "use us for target-practice"—should be kept on a leash. "We are very badly hurt," said Arun Mehta of B. Arunkumar (group turnover: Rs 165 crore). "We have grown without any government subsidies yet we are continually harassed." The recent strike proves how united the industry is: touch one of them and the entire trade rises.

But the friction is pushing a sizeable chunk of the business out of India. Today, there are 350 diamond families in Antwerp, 200 in New York, 80 in Hong Kong, 30 in Bangkok, 100 in Japan. They also have factories in Sri Lanka, Tunisia, Thailand, and have begun to pose a serious threat to India by their competitive cutting abilities. "What could have been our strength,

we have pushed out," says Jatin Mehta. "We created Thailand, DRC roughs going to Thailand will never find their way back here."

India's edge of cheap labour is getting blunted. Its trump card: an unparalleled distribution system. "When I look at the future of the diamond, the marketing has been well taken care of," says S.N. Sharma, Hindustan Diamond Company chairman.

What are the secrets of their success? Hard work, shrewd marketing, and stringent quality control that in a suspicious atmosphere make the "Indian quality diamond" one that is actually valued. Says a dealer: "They are not saints, but they are honest with their customers."

Almost all those who head companies also know how to cut a diamond themselves. They work late hours, week-ends and will give service on tap. None has had any formal business training and yet all have a blood instinct for the business. "Perhaps it's because we see the bottom

line every night," laughs Madhu Mehta.

But the biggest secret of the Palanpuri success is the large joint family nexus. Most of the big houses are inter-related and most offices across the globe are ultimately headed by a relative. This is a secretive business—and the family keeps secrets. Says Narendra Mehta: "We work for each other, for our cousins, nephews, uncles." Healthy family competition is a manner of keeping up with the Jains.

The tight Palanpuri syndicate allows few outsiders in. In 1979, the Government decided that it wanted a slice of the rich cake too and formed the Hindustan Diamond Company (HDC). "The small traders couldn't go to London," says Roy Albuquerque of HDC. "They needed a place to buy their roughs." But the trade giants look on HDC as "a listening post for the DRC", since it is held 30 per cent by Bank of Bermuda, the DRC's bankers. Still, HDC is doing well with a turnover of Rs 170 crore. Others, like the Tatas, have tried to get into diamonds but in vain: the trade is much too tightly controlled. There's enough room—but not for everyone.

Now, with rapid growth, new changes are coming: computers, lasers, professional managers. In Surat, Haldwani and Jaipur, HDC is developing industrial parks, the first of their kind, that will lease out small, modern factories to private traders.

The attempt is to lift the artisans out of their miserable hovels where they sit for 10 hours a day in cramped rooms, with no sunshine, no windows and no fan lest the smaller diamonds are blown away. It is reported that Thailand has its eye on this cheap labour. India is waking up, before the competition sits down to eat the cake.

Ultimately, the key question is: what will De Beers say? De Beers decides how much each dealer should get through its Central Selling Organisation in London, on the roof of which lands the private helicopter of Nicholas Oppenheimer, De Beers' boss. Despite its arrogant "take it or leave it" attitude, the DRC has acted as a stabiliser and kept diamond prices constant. Most dealers have a grudging gratitude toward it. India is important to the DRC: without it, excess stocks of small stones will begin accumulating.

Apart from the friction with the taxman, these are good days for diamonds. As one dealer says: "The only way we can go is up." Several of the big families have begun to offer their thanks through a series of charitable trusts that are building hospitals and schools in Gujarat villages. They are returning to the parched desert to repay an ancient debt. Diamonds, it seems, are forever—and a year.

—SIMRAN BHARGAVA in Delhi, Bombay and Antwerp