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Coverage

Pay Upfront, Bullion Dealers Tell Jewellers

Many abandon the practice of taking payment in cheque to safeguard against likely default

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As gold soars to new highs with increasing regularity, bullion dealers across the country's gold markets are demanding upfront cash from small and mid-level jewellers to avoid a possible default in case prices crash. If a client books gold at a preset rate for later delivery and if prices fall in the interim, it could induce the former to default, putting the dealer at risk.

"Trust is the catchword in the bullion market, but with gold having entered uncharted territory it is advisable to give delivery against full cash payment rather than through cheque or on credit," said a leading bullion dealer. "While there have been no problems in the market so far, if prices crash from the current level, chances of default cannot be entirely ruled out."

Gold priced hit a record Rs 26,416 per 10 gm on Tuesday in Mumbai, mainly because of a weaker rupee and a rise in the overseas gold rate.

While jewellers source gold from banks — which import on a consignment basis — against cash or margin payment or through metal loan against bank guarantee, many opt to buy the metal from bullion dealers, especially if they get a better rate than what a bank quotes or when there is a disparity between market and bank rate because of inventory pile-up or excess scrap sales.

Since it is private, the deal between a jeweller and a bullion dealer can be different from the one with a bank in that the two could agree upon cheque payment or on credit if the parties are known to each other.

Now, many are giving delivery only against cash, increasing margins for delivery at a later date or are taking full cash at the time of booking itself to cover themselves against a likely default.

Leading bullion dealer RiddiSiddhiBullions (RSBL) has raised the margin deposit kept with it by its clients to Rs 1.5 lakh from Rs 50,000 recently. "An increase in the margin deposit was necessitated the way prices have been moving recently. The margin can be brought down if prices stabilise," said Prithviraj Kothari, MD, RSBL, which services clients from 400 towns through its spot platform, RSBL Spot, where jewellers can place orders for and take delivery of gold bars on a T+2 basis.

The deposit acts as a disincentive for clients to default. For, if a client books gold at today's rate for delivery on, say, a T (trade) +2 basis and the price falls, she stands to lose her margin if she does not take delivery.

There are also cases when a client books gold with a commitment to take delivery, say, a day or two later. However, if prices fall, the client may simply not turn up, leaving a trader stranded. This is because when the client books gold with his dealer, the latter also books the gold from another supplier. Now, traders are exercising abundant caution by taking cash from clients at the time of booking.

"Caution has become the buzzword in the market with gold shooting up to unprecedented highs," said Rajesh Mehta, chairman of the Rs 21000-crore Rajesh Exports, a manufacturer and retailer of gold jewellery. "There are cases when cash is being taken at the time of booking to prevent a likely default from a small or mid-sized client. Everything in the jewellery market has so far worked by word-of-mouth. Now, that's changing, especially in the case of dealers vis-a-vis small and mid-sized jewellers."

Stating there had been no default despite surging prices, Bhargav Vaidya, a precious metals analyst, agreed bullion dealers had become cautious. "I'd say there's an environment of caution.... there has been no default," he added.

Trust No Longer the Catchword

- **Caution has become the** buzzword in the market with gold prices shooting up to unprecedented highs
- **A leading bullion dealer has** raised the margin deposit kept with it by its clients to Rs 1.5 lakh from Rs 50,000 recently
- **The deposit acts as a** disincentive for clients to default particularly when prices fall after the booking is done
- **With gold having entered** uncharted territory it is advisable to give delivery against full cash payment rather than through cheque or on credit, say a bullion dealer