

Want to SIP your way to diamonds?

The ICEX offers a viable channel for those wanting to buy diamonds

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Diamonds are a girl's best friend, especially Indian girls, since India has been a principal source for diamonds since ancient times. Many of the largest and (in)famous diamonds such as the Kohinoor, the Regent, Pitt and Orlov diamonds originated from India. It is therefore perhaps right that the world's first diamond futures bourse should come up in India.

The Indian Commodity Exchange Limited (ICEX) commenced diamond futures trading on an online platform last August. The contracts on this platform are all physically settled. While hedgers, traders and arbitrageurs are participating on the platform daily, there are also retail buyers who use this exchange to buy diamonds.

"Hedgers account for 25 to 30 per cent of the market volume. Of the remaining 70 to 75 per cent, there are retail buyers who are doing systematic investment every month to buy diamonds, besides speculators and arbitrageurs," says Sanjit Prasad, MD and CEO, ICEX. More than 2,000 retail investors are participating in these plans.

Why ICEX

The exchange operates under the supervision of SEBI, which ensures that you are not putting your money in a fly-by-night set-up. It is jointly

owned by public and private entities with MMTIC, Indian Potash, KRIBHCO, IDFC Bank, Reliance Exchanges (Reliance Capital) and Indiabulls Housing Finance holding stakes.

The diamonds delivered at the vault are certified by De Beers for quality, thus ensuring that investors get what they are promised. What's more, the price you get here is wholesale price, which is almost 25 to 30 per cent lower than the retail rate. The transparency offered by the exchange is another positive in the extremely opaque diamond market where prices of diamonds can vary according to size and quality, befuddling the common investor.

The contours

The exchange has permission to enable trading in delivery-based diamond futures contract. This means that those having outstanding position on the contract expiry day have to take or give delivery. The contract begins on the 6th of the contract launch month and expires on the 5th of the contract expiry month (which is the next month). Delivery has to be given in the last five days of the contract, which would be from the 1st to the 5th of the expiry month.

There are two types of contracts currently available – 1 carat contract and 50 cents or 0.50 carat contract. 0.30 cent contract is also likely to be



Sparkling diamonds on red velvet with caustics and lens effects. GETTY IMAGES/ISTOCKPHOTO

launched soon. To make the trading units smaller, trading takes place in units of 1 cent (1 carat = 100 cents). The price displayed on the screen is for 1 cent, lot size is also 1 cent and trading unit and delivery units are also 1 cent.

All deliveries into the exchange are in electronic format. If an investor takes position in March contract and wants to take delivery for 1 cent, then between 1st and 5th of the expiry month, he will get the credit for 1 e-unit of 1 cent. However, he cannot immediately convert this 1 cent into physical diamonds as the contract size is 1 carat or 0.50 carat, while the delivery is of 1 cent only.

Therefore, in order to convert the e-units into physical diamond, he has to first accumulate 50 cents to get delivery of 0.50 carat diamond or 100 cents to take delivery of 1 carat diamond. This can be done over a few months, depending on the amount the investor can save every

month. Say, you want to buy one carat diamond for ₹3,00,000, you can buy 10 cents every month for ₹30,000 for 10 months to accumulate the e-units to purchase the diamond. The accumulation is flexible and at the discretion of the buyer.

The stones are graded and certified by De Beers. So the buyers are assured of the quality that is promised by the exchange. The vault of the exchange is in Surat. If you want to buy physical diamond, it will be delivered to you at your doorstep in tamper-proof packing. Stones can be resold on the exchange platform. Each stone that is certified by the lab has a unique number that is engraved on the stone. So if it comes back to the exchange, the number can be checked.

The quality of diamonds is assured as only it is the larger diamond manufacturers who give delivery and it has the stamp of approval of De Beers, says Prasad. "The beauty is

that you are getting diamonds at a fraction of the cost you will get in a retail outlet," he adds. "The diamonds can be purchased at a wholesale rate that is close to 25 to 30 per cent lower than retail rate." GST is same for purchase on the exchange or at a retail outlet. The brokerage and other cost are minuscule at 2 to 3 basis points of the value of the contract.

Selling at ICEX

For making the delivery, the seller will have to get the diamond graded from the agency designated by the exchange. The diamond stone as well as the grading report will then be deposited with the vault accredited by the exchange, at Surat. After getting the confirmation about such delivery from the vault, e-units are credited to the depositor's e-account. If the seller wishes to deliver, he will have to give his intention to the exchange on any of the tender days.

The exchange will accept physical diamond of the specified ICEX quality and weight equal to or above 1 carat. One e-unit will be equivalent to 1 cent. If a seller tenders diamonds worth 106 cents, he will get 106 e-units. Buyers will get credit of e-units according to the delivery due to them.

The exchange is at a fledgling state and is yet to gain scale. But the basic infrastructure appears robust and could provide a viable option to those wanting to buy diamonds in the days ahead.



Quality check

- Shape: BR
- Carat: 1 to 1.09
- Colour: H
- Clarity: VS2
- Flour: Negligible
- Culet: Pointed

Within reach

The price you get here is wholesale price, which is almost 25 to 30 per cent lower than the retail rate