



Smita Roy Trivedi, PhD

Lessons from the Winsome Case:

Early Warnings for the Gems and Jewellery Sector

“We understand that banks are seriously contemplating action against Company, Mr. Jatin Mehta and present directors (other than Nominee director) for suspected fraud and diversion of funds. The Board takes this opportunity to assure members that the company and directors have acted bona fide, in good faith ... that if they have been found wanting, it is only because of their inexperience to deal with the complexities and enormity of the crisis”

(Annual Report 2012-13, Winsome Diamonds and Jewellery Limited)

Dr. Smita Roy Trivedi, Associate Professor, National Institute of Bank Management, NIBM Campus, NIBM PO, Kondhwe Khurd, Pune-411048. Email: smita@nibmindia.org;

Disclaimer:

This case has been written to aid classroom discussion and do not intent to illustrate the efficient and inefficient handling of a managerial situation.

The case is based on secondary data as availed through various sources cited in the document.

The views or opinions presented do not, in any way, reflect the views and opinions of the institution the author represents.

Copyright @ 2024 by the National Institute of Bank Management, Pune. No part of the publication may be reproduced or transmitted by any form or by any means – electronic, mechanical, photocopying, recording or otherwise (including internet) – without the permission of National institute of Bank Management.

I. THE DECISION

[On March 13th, 2024](#), Ahmedabad bench of the National Company Law Tribunal admitted the insolvency resolution application against Jatin Rajnikant Mehta. Mehta is the personal guarantor of bankrupt Winsome Diamonds and Jewellery Limited (Winsome from here on), and the resolution was admitted for a default of over Rs 457 crore (Economic Times, March 13th, 2024). The long-drawn case, which started with the invocation of Stand-by Letter of Credit (SBLCs) by Bullion banks in 2013, has seen many twists and turns along the way. Winsome was a well-known company in Gems and Jewellery sector, a sector that continues to be crucial for Indian exports. While the case against Winsome is sub-judice, the default remains a set-back for the banking industry: Winsome represented a default of about Rs 6,500 crore for the banks involved as reported by Times of India in 2014 ([Times of India, Aug 20, 2014](#)).

For the banking sector today, the moot question remain, were early warning signals for the Winsome case missed out and if so, how can the monitoring of accounts pertaining to Gems and Jewellery sector be done in a better way. One of the early warnings that had emerged with regard to Winsome case, as elaborated later, was the lack of diversification and exposure to a select group of buyers. This, however, may be a sector specific characteristic. The decision therefore, to be taken today for banking professionals handling Gems and Jewellery sector, are twofold:

1. How does the banker take a call on early warning signals for Gems and Jewellery sector? Should the judgement on such early warnings be guided by the FATF and FIU-IND guidelines pertaining to money laundering for this sector?
2. For Gems and Jewellery sector, given the prevalence of large exposures for banks and big-ticket clients, how do bankers create an objective system of evaluating early warnings?

II. BACKGROUND

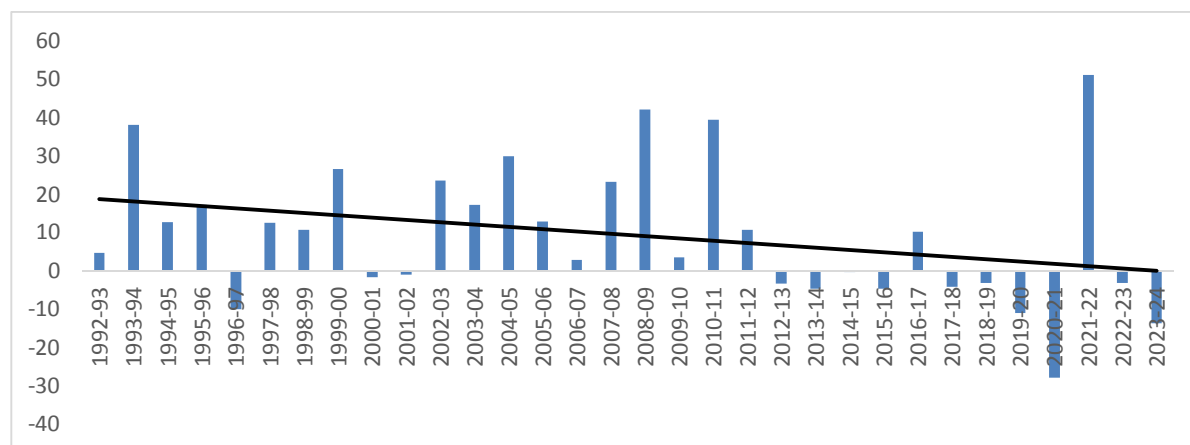
The importance of the Winsome case, though sub-judice, stems from the fact that Gems and Jewellery sector is crucial for Indian exports. As per Indian Brand Equity Foundation (IBEF) report, India's Gems and Jewellery exports recorded a magnitude of US\$ 26.35 billion for the period April 2023 to January 2024. India also ranked first among the top exporters in cut & polished diamonds,

and second in gold jewellery, silver jewellery and lab-grown diamonds in 2022 (IBEF, n.d). Figures 1 and 2 gives the year-on-year growth of exports from this sector and its contribution to total exports. We can see there has been a significant fall in export growth and contribution of this sector to total exports over time as shown by the trendlines. Figure 1 shows that year-on-year growth in exports suffered sharp setbacks from 2011 onwards. Figure 2 shows that exports from this sector, as percentage of total exports has also been sharply dwindling over time.

As per Gems and Jewellery Export Promotion Council (GJEPC), a host of factors both international and domestic are responsible for the setbacks. The reasons for fall in exports, for the period before the pandemic, include periodic shocks to global growth, fall in demand in major export destinations, levy of import duty on cut and polished diamonds in 2012, the introduction of 80:20 gold import scheme in 2013, unavailability of natural pearls and rough colored stone, decline in demand from UAE, accounting for more than 99% of Indian exports of gold (GEJPC, n.d).

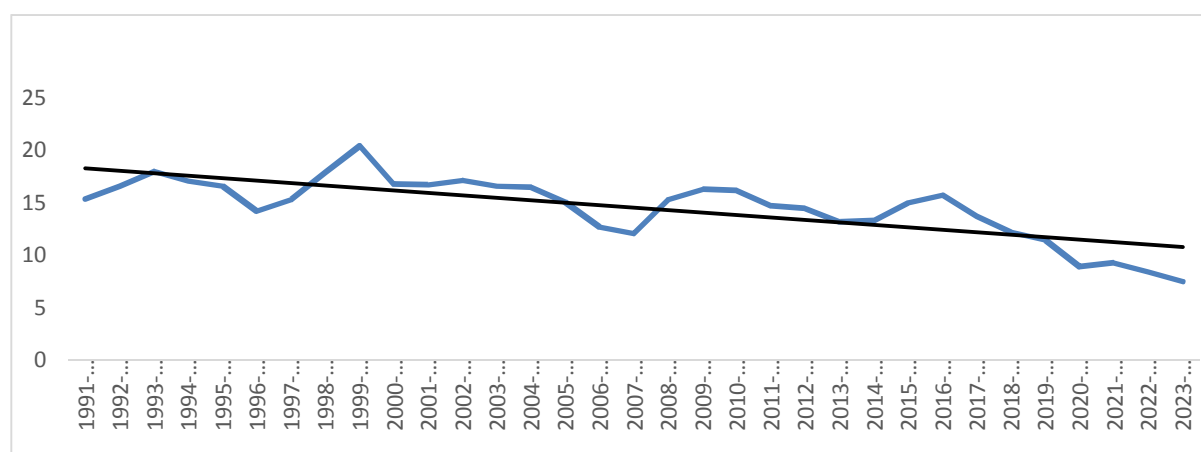
Covid-19 pandemic led to further disruptions to the industry, with the highest fall of -19.37% recorded in Feb 2020. Exports to key export destinations, especially to Hong Kong, saw a sharp fall post pandemic (GEJPC, n.d). Recovery in the sector has been uneven post the pandemic. It may be noted here that while imports of gold and silver (year on year growth) has registered a similar declining trend (figure 3), the share of gold and silver imports in total import bill remains largely constant as seen in Figure 4. Given the dominance of imports of gold and silver in the import bill, it is essential that exports from the sector are encouraged. In this situation financing of exports from the sector is likely to play an important role, which makes it imperative that the monitoring process is strengthened by banks, while catering to the credit needs.

Figure 1
Gems and Jewellery export (y-o-y growth)



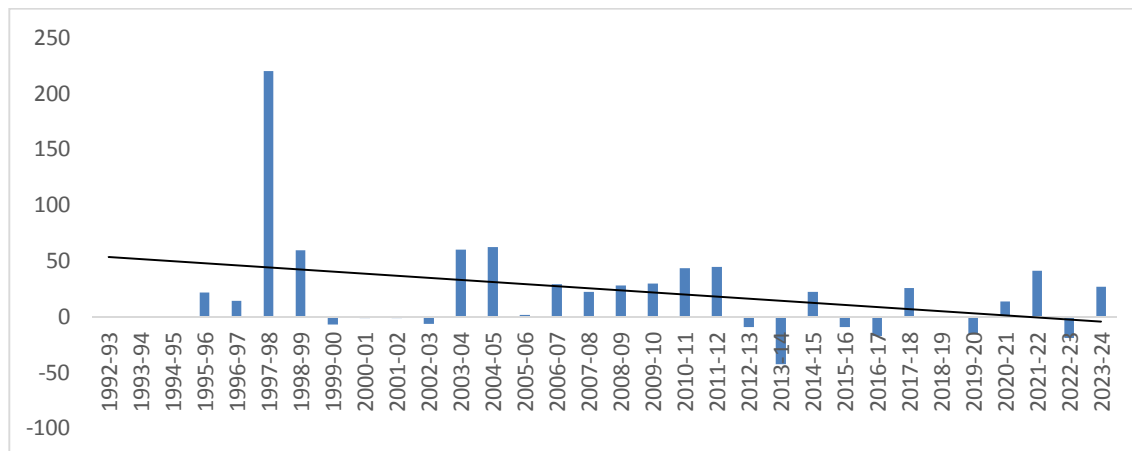
Raw data : CMIE (Commodity Composition of India's Exports to World)

Figure 2
Gems and Jewellery export (% in total)



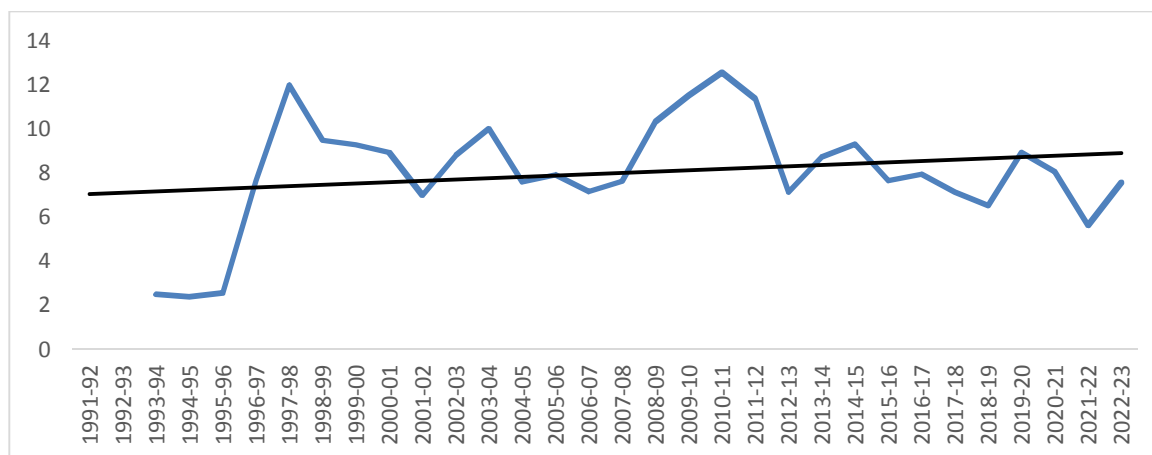
Raw data : CMIE (Commodity Composition of India's Exports to World)

Figure 3
Gold and silver imports (y-o-y growth)



Raw data : CMIE (Commodity Composition of India's Imports to World)

Figure 4
Gold and silver imports (% in total)



Raw data : CMIE (Commodity Composition of India's Imports to World)

Thus, while the Gems and Jewellery have been a important part of India's export story, it has been subjected to periodic shocks and hence exports from the sector have shown uneven performance. A high value default in this situation, as happened for the Winsome case, can led to sharp setbacks in credit extended to the sector. This makes it imperative to understand the

developments of the case and the early warnings that emerged, so that credit monitoring may be strengthened while catering to the needs of the exporters from this sector.

III. THE CASE

Winsome Diamonds was incorporated in 1985 and in addition to manufacturing, they exported cut and polished Diamonds as well as plain and studded gold Jewellery. The company imported bullion from abroad as one of the Nominated Agencies. A Consortium of 14 banks had sanctioned Fund Based (Export Packing Credit and Post Shipment Credit) and Non-Fund Based (Stand- By Letters of Credit and Bank Guarantee) credit limits of Rs.375 crores and Rs.3470 crores respectively to the company (Annual Report 2012-13, Winsome Diamonds and Jewellery Limited).

For the manufacture and export of gold jewellery, the company procured gold, usually on loan basis and on unfixed price basis as per industry practice, from overseas bullion banks as also from nominated agencies / banks in India against Stand-By Letters of Credit (SBLCs) of Consortium of Banks. The said bullion banks released the gold under separate Gold Loan agreements entered with the company against SBLC issued by the Indian Banks in favour of the Bullion Banks. After manufacturing of jewellery, it was exported to overseas buyers.

According to the company (Annual Report 2012-13, Winsome Diamonds and Jewellery Limited), it failed to arrange for payments due in March 2013 to the bullion banks due to delay in receipt of inward remittances from overseas customers against export bills. On account of this default by the company, the bullion banks initially invoked SBLCs which had fallen due, but, as defaults persisted, invoked all SBLCs in April 2013, including those for which gold loans were not due. The reason for invoking all the SBLCs prior to its expiry dates was the enabling clause in the Gold Loan Agreement (GLA) executed between the company and the bullion banks that in case the importer of bullion, Winsome, defaulted in honouring commitment in one SBLC, the entire SBLCs would be invoked. (CBI FIR, Ref. No. OPH/ADV/19-20/44/4)

The company tried to get a legal Order from the Bombay High Court restraining the Consortium banks from making remittances against invocations of these SBLCs where Gold Loans had not

fallen due. However, the Standard Bank PLC, one of the key bullion banks obtained an Order from the UK Court that in view of the fact that, as per the Gold Loan Agreement, the jurisdiction for any legal action was a Court in London, it will be deemed as Contempt of that Court if Winsome persisted with its application in the Bombay High Court. The company therefore could not pursue its application for a Stay Order (Annual Report 2012-13, Winsome Diamonds and Jewellery Limited).

The invoked SBLCs of Rs.3580.68 crores were paid by the Consortium banks in 2013, and following this invocation and devolvement of SBLCs, the liabilities for Winsome were crystallized in rupee terms and accounts were overdrawn. The company could not pay the Export Packing Credit and Post Shipment Advances that it had availed for diamond division and suspend its manufacturing operations (Annual Report 2012-13, Winsome Diamonds and Jewellery Limited).

In 2014, the CBI registered a case against Mehta. However, Jatin Mehta and his family left India in 2016, before any action could be taken by the banks on the alleged default. In 2016, All India Bank Employees Association (AIBEA) named Winsome Diamonds among wilful defaulters and by 2017, the CBI had registered six cases against Winsome Diamonds and Jewellery Ltd, and Forever Precious Jewellery and Diamonds Ltd, for allegedly cheating government banks. In 2018, India's Serious Fraud Investigation Office (SFIO), which probes white-collar crimes, engaged forensic auditors Chokshi & Chokshi, and officials seconded by PwC to look into the accounts, transaction patterns, and foreign exchange derivative deals of Winsome. In 2019, Enforcement Directorate (ED) approached National Company Law Tribunal (NCLT) to stop liquidation of Winsome Diamonds and Jewellery Ltd, till the investigation against the firm under the Prevention of Money Laundering Act, 2002 (PMLA) were completed and in 2020, two cases against the company were registered by the ED. In May 2022, a UK High court ordered a Worldwide Freezing Order (WFO) for \$932.5 million against Jatin Mehta and his family. On Feb 16, 2023, UK court ruled that the Mehtas, the owners of the Winsome Diamonds, would be tried in the UK, where they were residing. The case in UK has been filed by accountancy firm Grant Thornton and SCB who alleged that England-registered companies were used to launder fraud proceeds by Winsome Diamonds. Table 5 gives a brief chronology for the Winsome case ([The Economic Times, May 21, 2021](#),

[Business Today, Jun 28, 2018](#), [Hindustan Times, Nov 23, 2022](#), [The Print, 01 Aug, 2022](#), [Hindustan Times, Feb 16, 2023](#))

Table 5
The Chronology of events

Month and Year	Major Event
1985	<ul style="list-style-type: none">• Incorporation of Winsome Diamonds
2013 (March)	<ul style="list-style-type: none">• Company fails to pay to bullion banks
2013 (April)	<ul style="list-style-type: none">• Bullion banks invoke SBLC
2014	<ul style="list-style-type: none">• CBI registers first case against Winsome
2016	<ul style="list-style-type: none">• Mehta and family leave India
2017	<ul style="list-style-type: none">• SFIO engages forensic auditors
2020	<ul style="list-style-type: none">• ED registers two cases against the company
2022	<ul style="list-style-type: none">• UK High court orders Worldwide Freezing Order (WFO) against company
2024	<ul style="list-style-type: none">• Insolvency resolution application against Mehta admitted by the Ahmedabad bench of the NCLT for default of over Rs 457 crore

Source: [The Economic Times, May 21, 2021](#), [Business Today, Jun 28, 2018](#), [Hindustan Times, Nov 23, 2022](#), [The Print, 01 Aug, 2022](#), [Hindustan Times, Feb 16, 2023](#)

IV. THE EARLY WARNINGS?

The moot question is whether there were adequate early warnings in the Winsome case and if so, were these missed out by the banks in their monitoring of the account.

(a) Lack of diversification and Exclusive relationship

An exclusive relationship exists when an exporter with a history of high volume is dealing and trading with only one importer or few importers or subsidiaries. In addition, this exporter may be dealing with that singular importer by trading goods in different categories and, usually, with high dollar volumes. Under anti-money laundering (AML) guidelines, both entities are considered suspicious. In case of Winsome, there were a clear exposure to select buyers:

- Shri. Haytham Salman Ali Abu Obaidah, a Jordanian national operating from UAE, was a representative of thirteen foreign companies to whom gold and diamond jewellery was sold by Winsome. All of these companies operated within Free Trade Zone of Dubai.

- Mr. Haytham Salman Ali Abu Obaidah was the major shareholder and Director of select buyer companies of Winsome in Dubai including Italian Gold FZC.

(b) Buyer and supplier: Complex relationship patterns

A complex pattern of buyer/ supplier relationship emerged:

- M/s Al Noora FZE, a supplier as well as buyer to/from Winsome was under the sole ownership of Mr. Haytham Salman Ali Abu Obaidah. Ms. AL Noora FZE, which was supplier of Winsome was a related party to Mr. Haytham Salman Ali Abu Obaidah and the distributor companies that he controlled. New customers of Dubai were frequently introduced at the instance of Mr. Haytham.
- Smt. Sonia Mehta, wife of Shri Jatin R Mehta was a Director in M/s Herald International Limited (2004-2008), which in turn was the sole stakeholder company of M/s Al Alam Jewellery FZC, one of the 13 buyer companies in Dubai.
- Shri Rajan Parikh and Shri Dilip Thakkar (original subscribers of M/s Winsome) were also Directors of M/s Herald International Limited.

(c) Investments in real estate: Shri Jatin Mehta had made huge investment in real estate and/or setting up their family business in the name of M/s Gemesis in Singapore.

(d) Proof of delivery: Proof of delivery of the sale of gold and diamond jewellery to the foreign companies was not furnished in most of the cases.

The above signals present in the Winsome case raises the questions whether more effective monitoring of the account could have been done by the banks involved in extending credit to the company. However, the lack of exclusive relationship and presence of sister concerns are typical characteristics of the certain sectors, including the Gems and Jewellery sector. Moreover, real estate investment through other companies, by itself, may not be an early warning if the diversion of funds was not established. The proof of delivery not being given remains a serious compliance issue, and it is important to understand what steps were taken by the banks in this regard. It is also pertinent to note here that Winsome was a reputed company till the issue of

invocation of SBLCs came up and in this case the banks may be hesitant to limit exposure to the company in spite of presence of early warning, to avoid loss in business.

The Gems and Jewellery sector continue to be crucial for Indian exports and often is characterized by presence of related parties and sister concerns, with exposure to select buyers and suppliers. Should banks limit exposure in cases of such early warnings? How should the early warnings be evaluated given the presence of large-value accounts and big-ticket customers in this sector?

References

1. Central Bureau of Investigation, First Information Report, RC0772019E0003 dated 22.04.2019, lodged by Bank of India (BOI). Retrieved from <https://cbi.gov.in/assets/files/fir/RC0772019E0003.pdf>.
2. The Times of India (Aug 20, 2014), Did top defaulter divert Rs 6,500 crore loan funds abroad?, Retrieved from http://timesofindia.indiatimes.com/articleshow/40461330.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
1. [Business Today, Jun 28, 2018](https://www.businesstoday.in/latest/corporate/story/winsome-diamonds-case-cbi-files-chargesheet-against-3-former-canara-bank-officials-148241-2018-06-28), Winsome Diamonds case: CBI files chargesheet against 3 former top Canara Bank officials, Retrieved from <https://www.businesstoday.in/latest/corporate/story/winsome-diamonds-case-cbi-files-chargesheet-against-3-former-canara-bank-officials-148241-2018-06-28>
2. [The Economic Times, May 21, 2021](https://economictimes.indiatimes.com/markets/stocks/news/sfio-gets-forensic-auditors-to-unearth-winsome-groups-complex-dealings), SFIO gets forensic auditors to unearth Winsome Group's complex dealings, <https://economictimes.indiatimes.com/markets/stocks/news/sfio-gets-forensic-auditors-to-unearth-winsome-groups-complex-dealings>
3. [The Print, 01 Aug, 2022](https://theprint.in/india/winsome-diamonds-case-why-a-uk-court-passed-worldwide-freezing-order-against-indian-merchant/1063686/), Winsome Diamonds case — why a UK court passed 'worldwide freezing order' against Indian merchant, Retrieved from <https://theprint.in/india/winsome-diamonds-case-why-a-uk-court-passed-worldwide-freezing-order-against-indian-merchant/1063686/>
4. [Hindustan Times, Nov 23, 2022](https://www.hindustantimes.com/cities/mumbai-news/diamantaire-jatin-mehta-family-cornered-by-uk-court-101669144308302.html), Diamantaire Jatin Mehta, family cornered by UK court, Retrieved from <https://www.hindustantimes.com/cities/mumbai-news/diamantaire-jatin-mehta-family-cornered-by-uk-court-101669144308302.html>
5. [Hindustan Times, Feb 16, 2023](https://www.hindustantimes.com/cities/mumbai-news/uk-court-rules-fraud-case-against-winsome-s-mehtas-to-be-tried-in-the-uk-not-india-101676489721140.html), UK court rules fraud case against Winsome's Mehtas to be tried in the UK, not India, Retrieved from <https://www.hindustantimes.com/cities/mumbai-news/uk-court-rules-fraud-case-against-winsome-s-mehtas-to-be-tried-in-the-uk-not-india-101676489721140.html>