Background:

India has approximately 300,000 retail jewellers, 20-30% of whom belong to the organised sector. At the very top of this list stands the likes of Tanishq, Malabar, Kalyan and Joyalukkas - household names with a pan India presence. However, most jewellers even in the organised sector fall into the single store segment, fulfilling customer requirements at a neighbourhood or city level at most.

Gold Metal Lease:

In order to manufacture jewellery sold on to customers, jewellers prefer to take a Gold Metal Lease (GML), a mechanism through which a jewellery manufacturer borrows gold metal instead of rupees and settles the GML with gold metal or the proceeds from the sale of the jewellery manufactured.

The Lessor (usually a bullion bank) provides the physical metal, which essentially fulfils the working capital requirements of a jeweller. The jeweller settles the metal or rupees back to the Lessor at the close of the lease tenure.

The advantage for jewellers with this mechanism is that they are able to hedge against price fluctuations in gold. If a jeweller buys gold to manufacture ornaments and the price of gold falls significantly at the time they sell the gold, the jeweller suffers a loss. When using a GML for their raw material, a jeweller is indifferent to the price of gold.

Existing market:

Large jewellers and manufacturing companies are generally able to avail themselves of the structured GML product from banks. However, such large entities account for less than 25% of jewellery output in India. The vast majority of jewellery in India is produced and sold by MSMEs, who are not able to obtain GML from banks. Banks have collectively given about 70tons of gold as a GML, equivalent to Rs. 35,000 crs. The potential for a product catering to MSMEs in the jewellery industry would be much larger.

Retail investor point of view:

India is one of the largest markets for gold; however, historically, earning any returns from physical gold has meant relying on gold price appreciation over long durations of time. Consequently, returns are perceived to be lower than other asset classes.

Gains by SafeGold:

SafeGold is the largest digital gold platform in India, enabling 20 million+ retail customers to accumulate savings in gold. Our new product - **Gains by SafeGold** - uses the foundation of retail digital gold savings to provide a way for individuals to lease their gold to jewellers and earn a yield.

Our aim will be to then extend this further, collecting idle household gold, for which a customer would exchange for an equivalent amount of digital gold, to be invested in this product.

Primary Benefits

- **Diversify while increasing returns:** Gold becomes an income-generating asset while continuing to function as a portfolio. Based on an annualised return of 11% on gold on a 5-year horizon, and expected yields between 3-6%, customers who treat this as a long-term investment **stand to earn up to 17% annually**.

- **Accessible investment:** Users can opt in to the product with a minimal investment (starting @ 0.5 gm). SafeGold has already made purchasing gold far more accessible and continues to maintain this accessibility with Gains.

- **Greater liquidity (vs. SGBs):** Unlike SGBs, Gains investments can be cashed out at the end of the lease tenure (typically between 3-6 months). This keeps Gains leases liquid and also gives investors greater control over when they can withdraw, reinvest or even take delivery of their digital gold.

- **Low barrier to entry:** Doesn't require a demat account and trading know-how.

Secondary Benefits

- Participate in the realisation of the true potential of India's household gold reserves (estimated to be approx. 25,000 tonnes). All gold metal leases provided from domestically mobilised gold would also reduce gold imports by a corresponding amount. All GML metal is currently imported by banks.

- Create a new credit product for India's MSME jewellers, who employ over 6 million skilled artisan workers, but lack a lever through which to grow.

Product Mechanism:

- SafeGold allows jewellers to list their lease on the SafeGold platform after the jeweller has been thoroughly vetted for creditworthiness and KYC verified
- Jewellers listing their lease choose the yield rate and tenure they wish to offer and provide a bank guarantee covering at least 105% of the value of the gold to be lease
- SafeGold customers view the listed leases and commit at least 0.5 gm of their gold balance to the lease of their choice.
- SafeGold facilitates the lease by physically transferring the gold metal to the jeweller.
- For the period of the lease, customers cannot sell, exchange for jewellery or take delivery of their committed gold balance.
- At the end of the lease tenure, the jeweller settles the gold back to the vault, and SafeGold updates the customer balance. Customers have the option to re-lease, sell or take physical possession of their gold balance.
- Customer yield is calculated on a daily basis and accrues to their digital gold account each month.
- Yields are expected to be between 3-6% (depending on jeweller choice and loyalty incentives offered by SafeGold).
- Jewellers have the option of a flexi tenure lease where they settle the gold back before the maturity of the lease.
- In the event a jeweller defaults, SafeGold would enforce the bank guarantee and replenish customer gold balances to the greatest extent possible (depending on gold price fluctuations).

Taxation

From a taxation perspective, digital gold is treated as a capital asset (i.e. the same as physical gold), on which short term or long term capital tax is applicable, depending on how long the asset is held for. However, customers entering into the lease should obtain tax advice independently on this product in order to ascertain its treatment as a capital asset or individual income.

Key Risk Factors associated with Gold Leasing

Unregulated Product: Gold Metal Leasing is not a regulated product and customers do not have any regulatory recourse in the event that they suffer any losses.

Risk of Loss of Capital: A jeweller who leases customer gold will provide a bank guarantee or similar collateral equivalent to at least 105% of the INR value of the leased gold. Additional collateral has to be posted in the event of rising gold prices. However, if the gold prices rise suddenly it is possible that the jeweller defaults on repayments and the recovery of customer gold is limited to the amount covered by the guarantee/ collateral. Further, enforcing a bank guarantee can take time and recovery may not be within the contracted time frame.

No Guarantee: SafeGold operates a platform which connects Lessors and Lessees of gold metal. While SafeGold endeavours to protect customer gold by enforcing the collateral in an event of default by the lessee, it does not guarantee customer capital or any returns.

Price Risk: In a gold metal lease, the customer remains the owner of gold and repayment is made in grams of gold. If the price of gold falls, the INR value of customer gold will fall and if the price of gold increases, the INR value of customer gold will increase. A gold metal lease does not assure the customer of any returns in INR terms, only a yield in gms of gold.

Tax Consequences: SafeGold does not make any deductions or filings on a customer's behalf for tax deduction at source and tax collected at source. Customers are responsible for determining if they have any tax liability on the income earned from leasing out their gold.