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Ceylon blue sapphire, which can sell at $17,000 a carat.

THE COLOUR OF MONEY

Gold and gilts are passé. The Indian investor is turning to a new asset class—coloured gemstones. *By Arindam Bhattacharjee*

Photograph by BANDEEP SINGH

GEMSTONEUNIVERSE

BURMESE RUBY
Its pigeon-blood colour makes it one of the most valuable gemstones on earth: at least $10,000 per carat.

PANJSHIR EMERALD
Emeralds from the valley of Panjshir in Afghanistan are rare and can easily retail at over $12,000 a carat.

Gemstone Universe (GU), a store set up last November, though the company has had an online presence since 2006. It is the only one of its kind in the world—15,000 sq. ft. dedicated to untreated, natural, "planetary" gemstones.

Gemmologists define planetary gems as those that occur naturally as roughs, are not heated for colour enhancement and glitter, and are only cut and polished for aesthetics and jewellery. They are considered the apex of the gemstone pyramid. Astrology has a major part to play in the value of these stones: It is believed that coloured stones have healing powers. For instance, according to the American Gem Society, a ruby can increase integrity, devotion, and happiness, while a sapphire aids personal expression and alleviates pain.

Shanmugam's passion reflects India's growing interest in coloured gems. Diamonds processed in India already account for 85% by volume (60% by value) of the world market, but consumption of coloured gemstones is minute in comparison. For instance, in FY09, polished diamonds worth Rs 29,000 crore were imported, compared to Rs 2,500 crore of coloured gemstones and pearls. Indians consume 20% of the world's gold and use gemstones as studs. A FICCI-Technopak report estimates that the domestic market for gems and jewellery will touch $40 billion (Rs 2.15 lakh crore) in FY15, up from $30.5 billion in FY11. The government has also permitted 100% foreign direct investment in the sector.

Arnav and Abhijita Kulshrestha, who founded GU, are gemmologists accredited by both the Gemological Institute of America and the Planetary Gemologists Association, Thailand. GU recently sold a Ceylon blue sapphire—about 4.5 carats—at $17,000 a carat. "Though the buyer acquired the stone for planetary purposes, I would assume, in the long run, it will be an investment," says Abhijita, adding that usually expensive gemstones are bought to be sold in future when the value rises. The average value of a coloured gemstone at the store is between $1,000 and $10,000 a carat.

GU primarily sources its inventory from bulk vendors across the globe, and also buys back from customers. Once appraised, they are priced according to the quality and the source of each stone. Margins could range from as little as 10% to 1,000% and beyond. Arnav says coloured gemstones do not trade the same way as diamonds or consumer products. "They sell as individual entities, depending on the demand, rarity, colour, and size."

India is shifting from diamonds to coloured stones (see 'A Girl's New Best Friend?', *Fortune India*, August 2012). "I have about 100 customers who invest in coloured gemstones. The phenomenon has picked up in the last four years," says Arnav. According to him, first-time investors spend between $20,000 and $1 million the first time they buy. He adds that the fastest-moving stones are blue and yellow sapphires in the range of two carats to three carats, priced between $500 and $1,500 a carat. He, however, recommends rubies from Mozambique for investment since they have returned about 30% every six months.

"I have quit equities altogether, and am looking at a window of one to three years to get returns on my gemstones." *—Ravi Shankar, independent software consultant*

Gems generally increase in value at the rate of inflation of a country, says the U.S.-based International Gem Society, an independent body of gemmologists. The 4Cs—cut, colour, clarity, and carat—have always been the principal guidelines for valuing a gemstone. The Kulshresthas add that the rarity of the stone, particularly the mine from which it originates—better still if the mine has dried up—drive the price up.

For instance, 90% of the world's rubies come from the Mogok Valley in Myanmar. The mining is disorganised and secretive, and trading in the stones is banned in the U.S. where it is believed that ruby mining helped fund the military junta. But rubies still slip out and sell at astonishing prices: An unheated 8.62 carat pigeon's blood—the rarest colour—ruby was sold at $3.64 million at Christie's in 2006, setting a world record of nearly $425,000 a carat for the stone. Abhijita says that even the worst variety of Burmese ruby sells for at least $10,000 a carat. In November 2010, Burmese gem traders who came with bamboo baskets full of rubies returned with a record $1.44 billion from the two-week annual gem trade fair held in Yangon. Similarly, a blue sapphire from mines that have been shut down in the Kashmir Valley can compete in value with Madagascar and Montana sapphires. One of the most famous Kashmir blue sapphires is the 182 carat Star of Bombay, which now resides in the National Museum of Natural History, Washington D.C.

Entrepreneur and human resource development consultant, 36-year-old Rahul Kapoor, picked up a yellow sapphire for Rs 1 lakh three years ago, worth about 25% more today. "When I entered gems, it was more for planetary alignment. The 2008 recession took a toll on my finances," says Kapoor. He wants to invest a further Rs 40 lakh in the next three quarters in "hard assets that I can forget about for a long time". Kapoor owns three yellow sapphires and a Basra pearl, of which only two are studded in jewellery. He expects their value to double in 10 years to 15 years. Though this is a mere 5% of his present portfolio of real estate, gold, and conventional financial instruments, Kapoor intends to invest Rs 15 lakh to Rs 20 lakh of his surplus income every year to bring gemstones up to 10% of his portfolio.

Similarly, Ravi Shankar, 46, an independent software consultant, turned to gem investing in the 2001 recession. He first bought a blue sapphire at Rs 3 lakh for astrological reasons which today would be worth between 10% and 30% more. "The experience and the value of owning a gemstone led me to buy a diamond worth Rs 1 lakh and an emerald worth Rs 2 lakh," says Shankar. He intends to expand the gemstones in his portfolio from 10% to 25%. The remaining is in real estate. "I have quit equities altogether, and am looking at a window of one to three years to get returns on my gemstones."

Shankar says that when buying high-value rocks, he prefers a physical experience over online purchases. "People like to see what they are buying—the intensity of the colour, the clarity, and above all, how it looks on their skin," says Abhijita. According to her, emeralds best suit an Indian woman's skin tone, but diamonds are still the most popular.

Kamal Tandon, chief operating officer of Nalli Silks, a leading saree and textile retail business from South India, has been collecting gemstones, both diamonds and coloured rocks for over a decade. "I have spent $2.5 million to $3 million on these hard assets, of which 25% was for my wife's jewellery," says the 35-year-old.

Coloured gemstones are still not as liquid as diamonds and lack an organised market. Investors depend on cross-selling among patrons, or exchanges for more valuable stones in the market. Some also seek vendors who sell to retailers. Arnav says, "It all depends on the quality of the stone that one possesses." Abhijita adds that a certificate from an accredited gem lab confirms a stone's particulars and pedigree, thus adding to its value. GU sells only certified gems.

Kishore Narne, associate director, Motilal Oswal Commodities Broker, thinks the increasing popularity of investing in coloured gemstones could be due to the prolonged economic depression. "People are tired of muted returns from conventional investments," he says, adding that high net-worth individuals can afford to have hard assets that take years to appreciate in value. He adds that investing in gemstones makes sense since they occupy little space and are portable but rules out a *hawala* phenomenon: Since India is the primary market for gemstones, it's unlikely that owners will use personal jewellery as a method of sneaking stones through customs to sell abroad, though they may be sneaking them into the country in a small way. Meanwhile, the country's well-heeled is making gemstones its best friend. FI