

state  
diamond  
trader  
REPUBLIC OF SOUTH AFRICA

# **BRIEFING OF THE PORTFOLIO COMMITTEE ON MINERALS AND ENERGY**

## **FINANCIAL SUSTAINABILITY OF STATE DIAMOND TRADER**

**25 NOVEMBER 2020**

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# INTRODUCTION

- **Who we are**
- A State – owned entity established in 2007 in terms of section 14 of the Diamond Act 56 of 1986 to operate in the diamond industry to support and facilitate growth in local diamond beneficiation.
- The SDT is categorized as a schedule 3B entity in terms of the Public Finance Management ACT 1 of 1999 (PFMA)
- **Mandate is to:**
  - buy and sell rough diamonds for local beneficiation
  - promote equitable access to and beneficiation of the country's diamond resources
  - grow SA diamond cutting and polishing industry by increasing HDSA for beneficiation
  - address distortion created by excluding previously disadvantaged groups from economic participation (transform diamond industry)
  - purchase up to 10% of the run of mine from SA producers
  - sell to registered customers through an application and approved process

# VISION AND MISSION STATEMENT

## VISION

To be a catalyst for transformation and growth of the local diamond beneficiation industry

## MISSION

Ensure acquisition of and equitable access to rough diamonds with particular focus on HDSAs.

Promote the growth of the diamond beneficiation industry through relevant interventions.

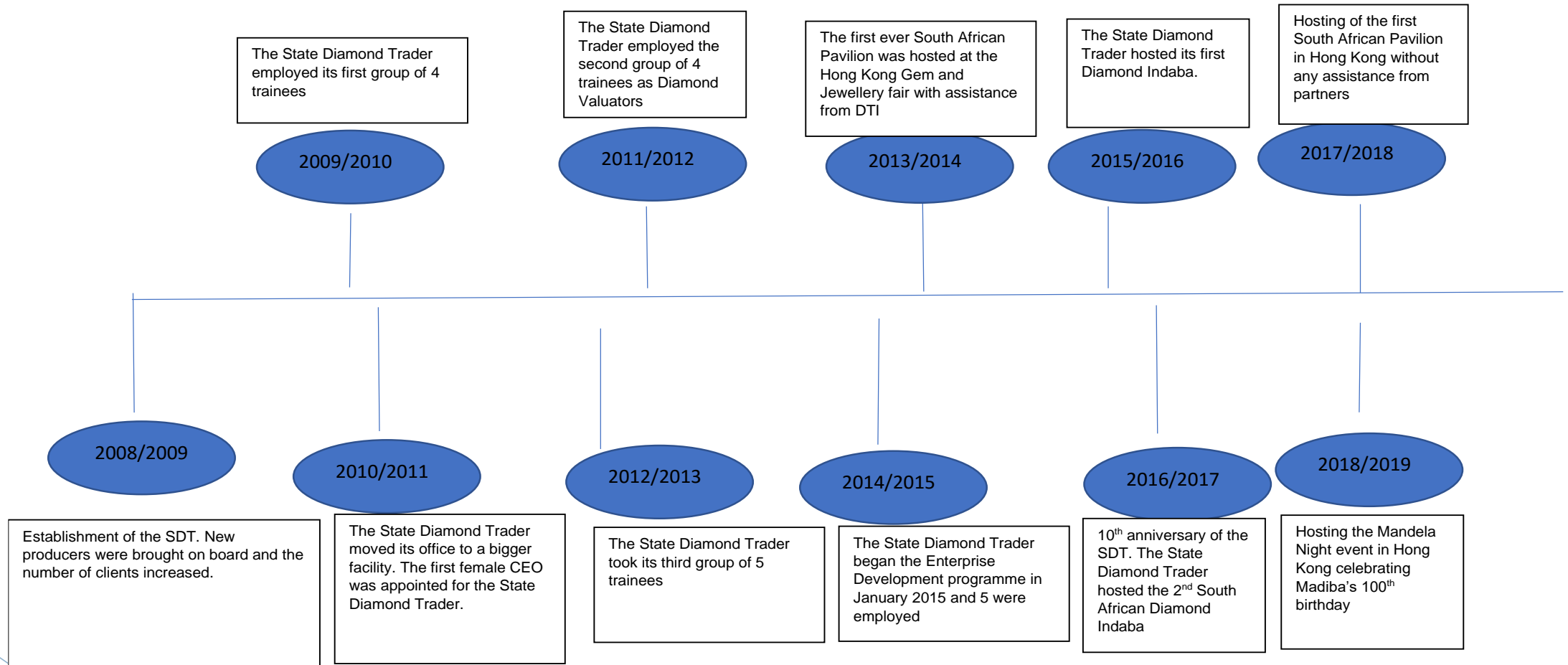
Establish and maintain a transformed client base of local diamond beneficiaries



# ESTABLISHMENT PHASE



# SDT SINCE INCEPTION



# ESTABLISHMENT PHASE

- Established in 2007 (13 years of existence)
- Established as Schedule 3B entity
- Initial Business case, IDC offered to grant SDT a subordinated loan for capital expenditure and revolving credit facility for the stock
- Interest charges from IDC loan was charged at Prime+2%
- At Inception stage, Seconded staff from DMRE and DeBeers
- Staff from DMR salaries paid by the department
- 2010, First batch of diamond trainees salaries paid by the department for a year
- Staff from De Beers seconded to SDT salaries paid by De Beers
- 2009, DME provided a bailout of R1million
- De Beers sold equipment and tools to SDT at a cost of R1
- Purchase only ROM per legislation and legislated to sell to Beneficiators

# ACHIEVEMENTS SINCE ESTABLISHMENT

- Permanent staff compliment of 17 officials
- Run its operations without financial assistant
- Hosting of the SA Diamond Indaba for 2 years
- Facilitated SA workshops for Access to Finance
- Facilitated SA workshop for Access to Markets
- Facilitated and assisting the industry by providing a platform to market South African Polished diamonds Internationally- Hong Show Gem and Jewellery show -6 years
  - Bangkok
  - Japan
- Assisted clients with market penetration in local markets- Jewellex, Buy local Summit and Mining Indaba
- Enterprise Development Programme – 27 participants trained – 5 in Thailand 11 in India
- Managed the exit strategy for 17 jewellers and watchmakers that was trained Italy for 2 years in partnership with MQA
- Conducted 22 Provincial roadshows in 7 provinces





# CHALLENGES AND INTERVENTIONS

# LIMITATIONS

## FUNDING

- Reliant on margins generated for cover cost
- Not enough capital to purchase from large producers
- Limited financial resources impacts the growth of the entity
- Limited financial resources impacts human resource
- IDC Loan- Interest charges of the loan is prime +2% and currently not approved by the Shareholder

## NOT ALL PRODUCERS OFFER THEIR GOODS

- 2019/2020- 15 producers have complied with law
- There are many producers that, albeit it being small to medium are not complying with the law
- Producers placing goods at Tender Houses and the tender houses are exported these to centres like Belgium and Dubai

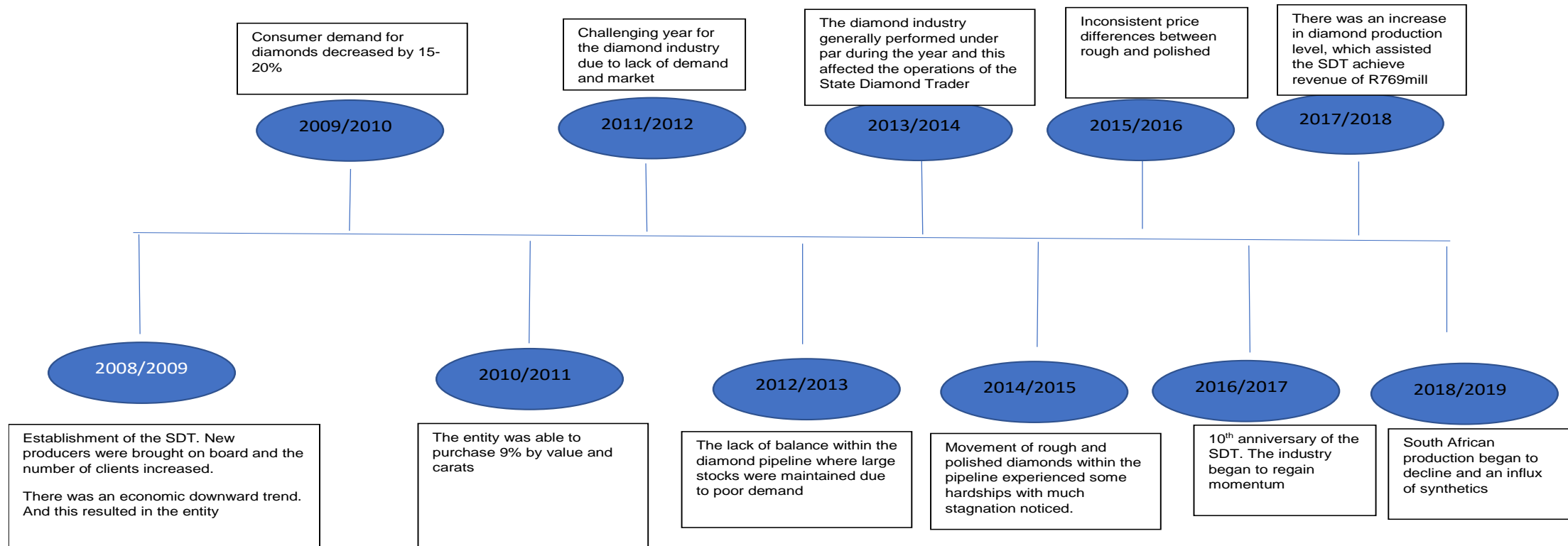
## ROM

- Entity has access up to 10% Run of Mine production, 85% by volume not deemed economically suitable for Beneficiation.
- 15% is deemed economically suitable to be beneficiated in SA
- State Diamond Trader legislated to sell to Beneficiators



## PAST 12 YEARS TRADING PERFORMANCE

# TIMELINES SINCE INCEPTION

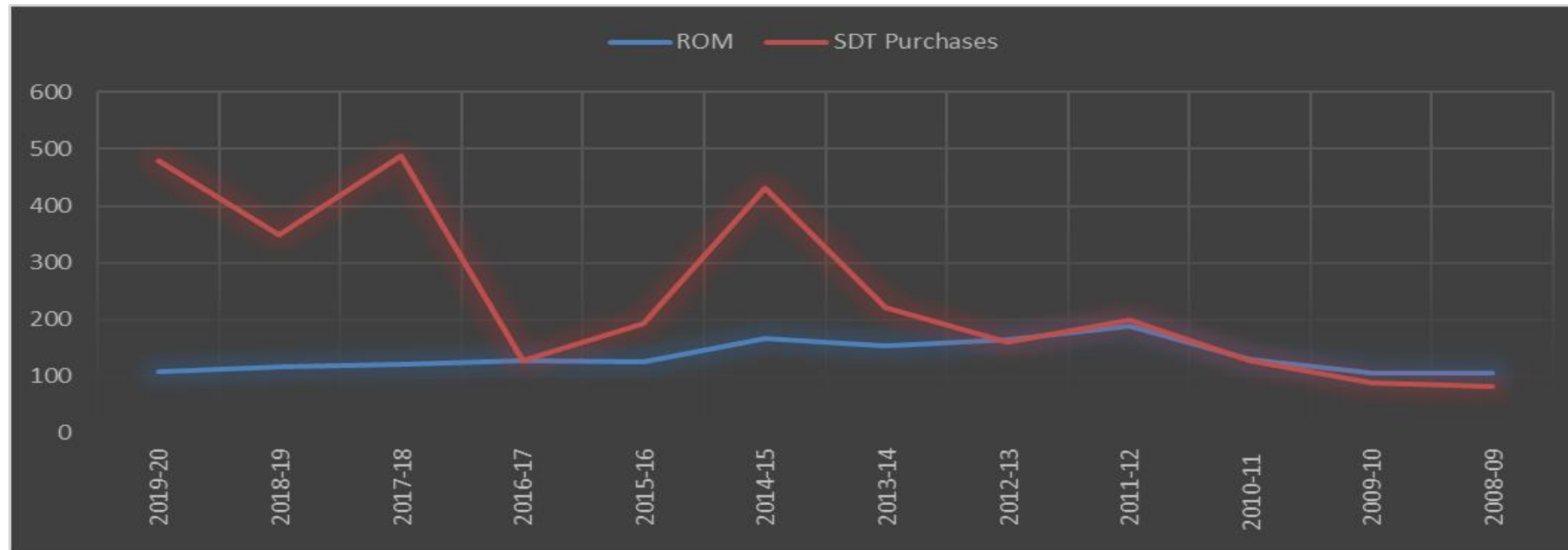


# INSPECTIONS VS PURCHASES

|                              | 2008/2009               | 2009/2010          | 2010/2011            | 2011/2012            | 2012/2013            | 2013/2014            | 2014/2015            | 2015/2016          | 2016/2017            | 2017/2018            | 2018/2019            | 2019-20               |
|------------------------------|-------------------------|--------------------|----------------------|----------------------|----------------------|----------------------|----------------------|--------------------|----------------------|----------------------|----------------------|-----------------------|
| <b>SDT Inspections US\$*</b> | <b>1 166 505 639,28</b> | <b>616 893 943</b> | <b>1 236 182 068</b> | <b>1 301 572 083</b> | <b>1 177 840 751</b> | <b>1 283 935 876</b> | <b>1 317 984 510</b> | <b>970 529 959</b> | <b>1 144 536 663</b> | <b>1 216 804 132</b> | <b>1 148 204 471</b> | <b>767 903 935,87</b> |
| Carats inspected             | 11 052 434,54           | 5 765 002          | 9 519 617            | 6 889 931            | 7 117 642            | 8 339 781            | 7 885 298            | 7 726 850          | 8 994 894            | 10 012 744           | 9 873 078            | 7 126 212,54          |
| US\$ per carat               | 105,54                  | 107,01             | 129,86               | 188,91               | 165,481876           | 153,95               | 167,14               | 125,60             | 127,24               | 121,53               | 116                  | 108                   |
| No. of producers             | 9                       | 6                  | 9                    | 7                    | 9                    | 12                   | 13                   | 14                 | 12                   | 16                   | 15                   | 15                    |
| No. of inspections           | 46                      | 90                 | 125                  | 125                  | 126                  | 134                  | 145                  | 136                | 117                  | 126                  | 214                  | 242                   |
| <b>SDT Purchases ZAR</b>     | <b>92 024 575,31</b>    | <b>317 728 000</b> | <b>780 560 949</b>   | <b>410 405 051</b>   | <b>407 998 978</b>   | <b>527 791 954</b>   | <b>396 728 675</b>   | <b>450 509 541</b> | <b>694 503 343</b>   | <b>742 336 248</b>   | <b>132 515,80</b>    | <b>225 635 973</b>    |
| % purchased**                | 1                       | 7%                 | 9%                   | 4%                   | 4%                   | 4%                   | 3%                   | 3%                 | 4%                   | 4%                   | 4                    | 2                     |
| No. of purchases             | 11                      | 29                 | 67                   | 72                   | 48                   | 68                   | 69                   | 61                 | 60                   | 67                   | 124                  | 67                    |

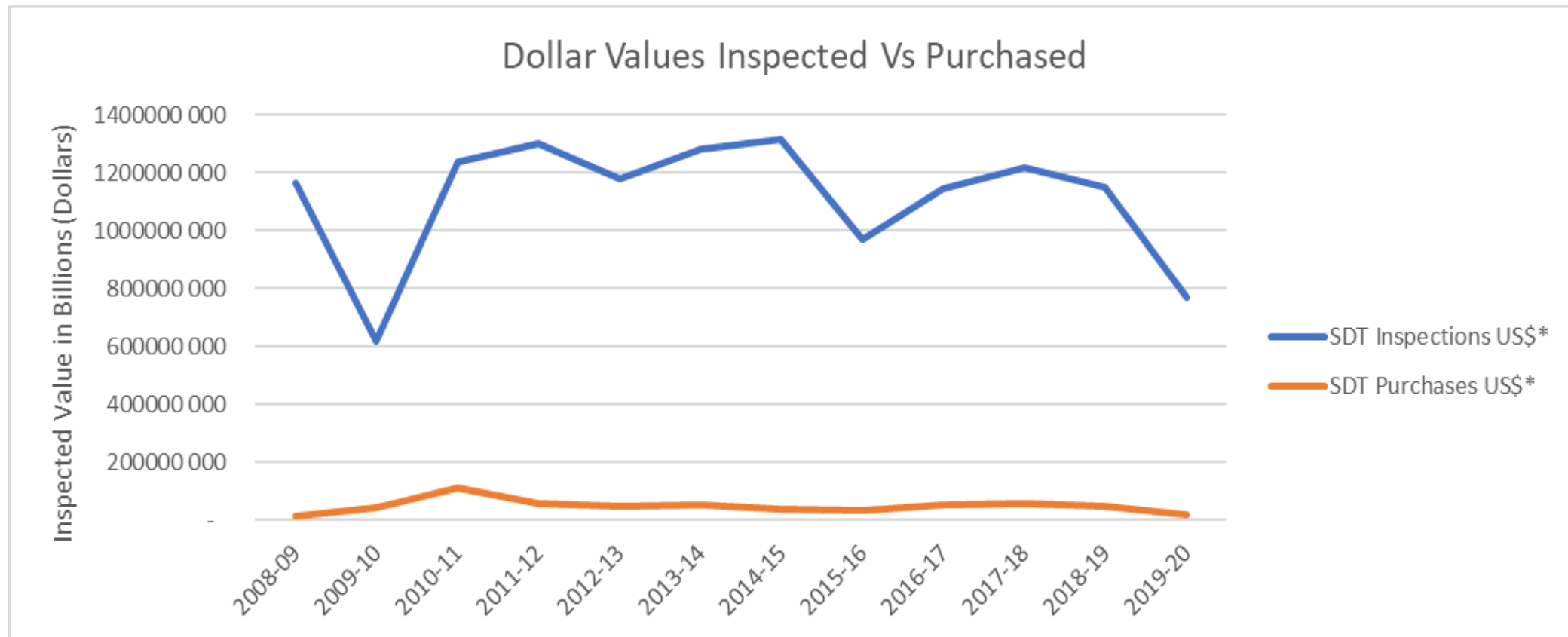


# ACTUAL PURCHASES VS 10% ROM(AP US\$/CT

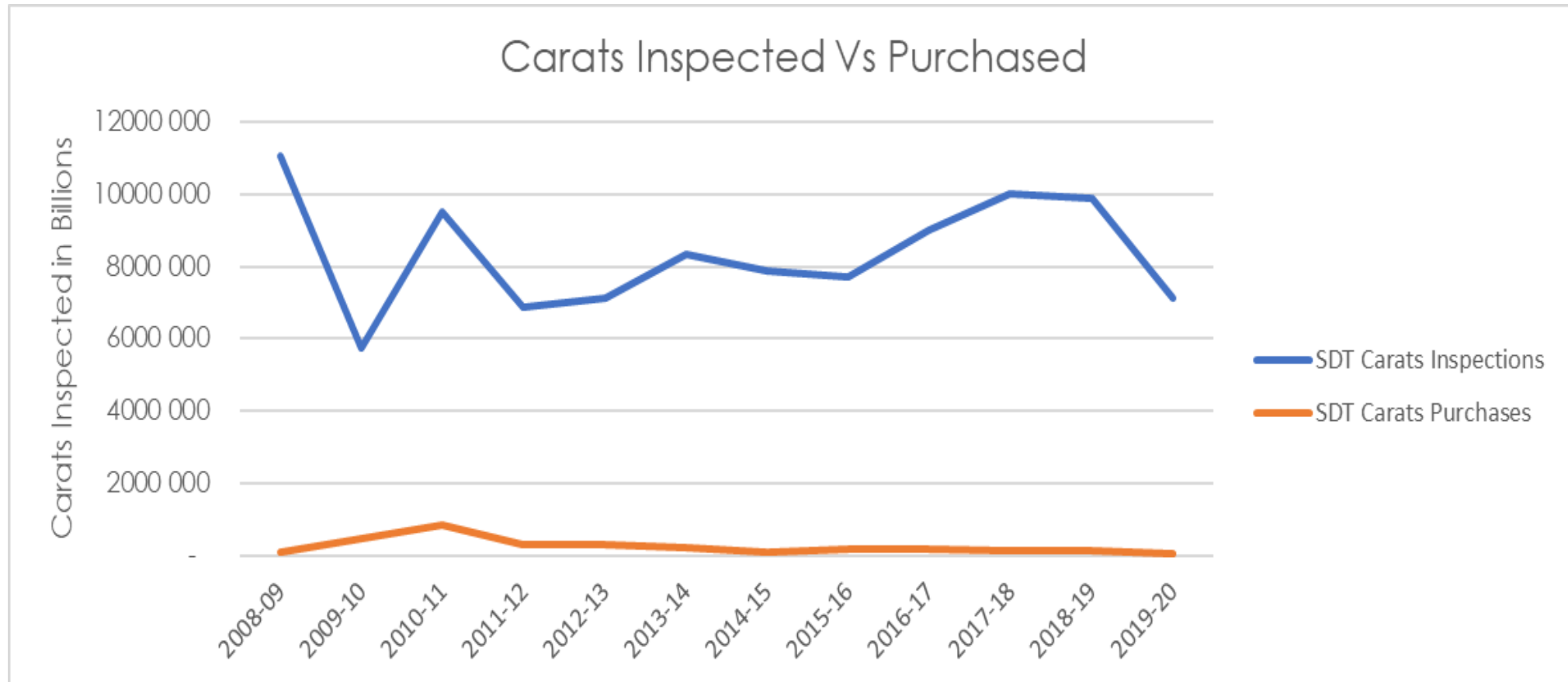




# INSPECTED VALUE VS PURCHASED VALUE

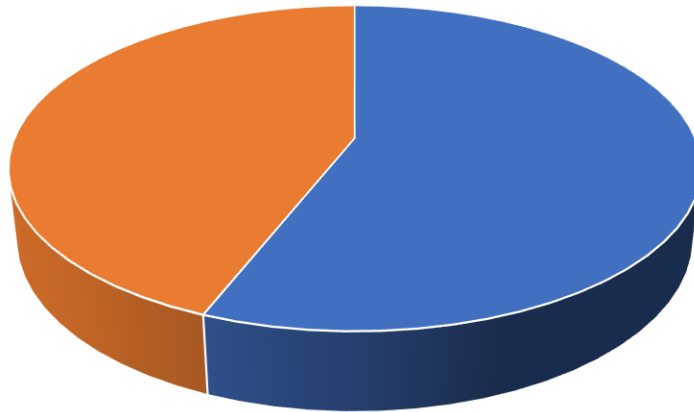


# INSPECTED CARATS(VOLUME) VS PURCHASED VALUE



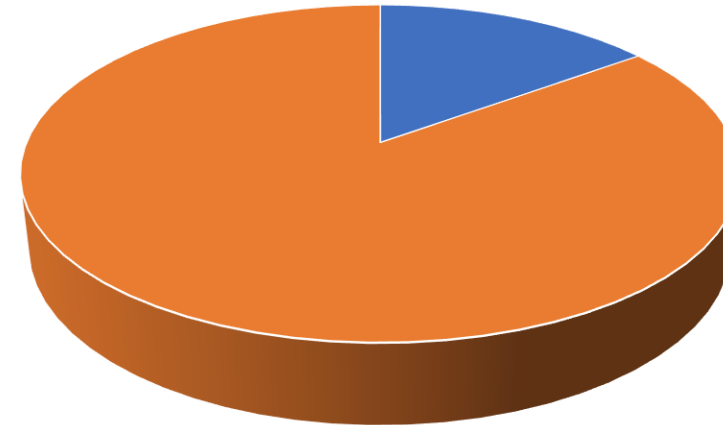
# ANALYSIS OF SUITABLE VS NOT SUITABLE

Analasis by value



■ Suitable ■ Not Suitable

Analaysis by Carats



■ Suitable ■ Not Suitable

# PURCHASING PRODUCER SUPPLY AGREEMENTS

- The State Diamond Trader embarked with special purchasing agreements with the producers which are vital to the sustainability of the entity.
- The option to purchase on the +3GRS is beneficial to the State Diamond Trader at times when there is no demand for the smaller sizes which are deemed unsuitable for beneficiation due to economies of scale(labor costs)
- The special models allow the State Diamond Trader to avoid purchasing items tradeable goods in South African Market.
- If these special purchasing agreements were not in place, it would result in the entity not being able to purchase from larger producers that contribute 66% of the entity's revenue

# PURCHASING- ANALYSIS OF SUITABLE VS NOT SUITABLE

| 2015-16                        | Carats         | ZAR Sales          | ZAR Cost           | % of total |       |
|--------------------------------|----------------|--------------------|--------------------|------------|-------|
|                                |                |                    |                    | Carats     | Value |
| Suitable for beneficiation     | 20 124         | 306 097 020        | 297 161 200        | 13%        | 66%   |
| Not suitable for beneficiation | 138 004        | 154 320 548        | 150 039 453        | 87%        | 34%   |
|                                | <b>158 128</b> | <b>460 417 568</b> | <b>447 200 654</b> |            |       |

| 2016-17                        | Carats            | ZAR Sales          | ZAR Cost           | % of total |       |
|--------------------------------|-------------------|--------------------|--------------------|------------|-------|
|                                |                   |                    |                    | Carats     | Value |
| Suitable for beneficiation     | 45 821            | 551 048 395        | 532 159 829        | 26%        | 76%   |
| Not suitable for beneficiation | 132 231           | 171 675 039        | 166 117 721        | 74%        | 24%   |
|                                | <b>178 051,58</b> | <b>722 723 434</b> | <b>698 277 550</b> |            |       |

| 2017-18                        | Carats         | ZAR Sales          | ZAR Cost           | % of total |       |
|--------------------------------|----------------|--------------------|--------------------|------------|-------|
|                                |                |                    |                    | Carats     | Value |
| Suitable for beneficiation     | 47 591         | 626 494 223        | 603 982 141        | 41%        | 81%   |
| Not suitable for beneficiation | 68 760         | 142 601 928        | 137 703 031        | 59%        | 19%   |
|                                | <b>116 351</b> | <b>769 096 151</b> | <b>741 685 172</b> |            |       |

| 2018-19                        | Carats         | ZAR Sales          | ZAR Cost           | % of total |       |
|--------------------------------|----------------|--------------------|--------------------|------------|-------|
|                                |                |                    |                    | Carats     | Value |
| Suitable for beneficiation     | 59 955         | 591 449 985        | 571 647 495        | 45%        | 89%   |
| Not suitable for beneficiation | 72 985         | 75 422 988         | 73 944 307         | 55%        | 11%   |
|                                | <b>132 940</b> | <b>666 872 973</b> | <b>645 591 802</b> |            |       |

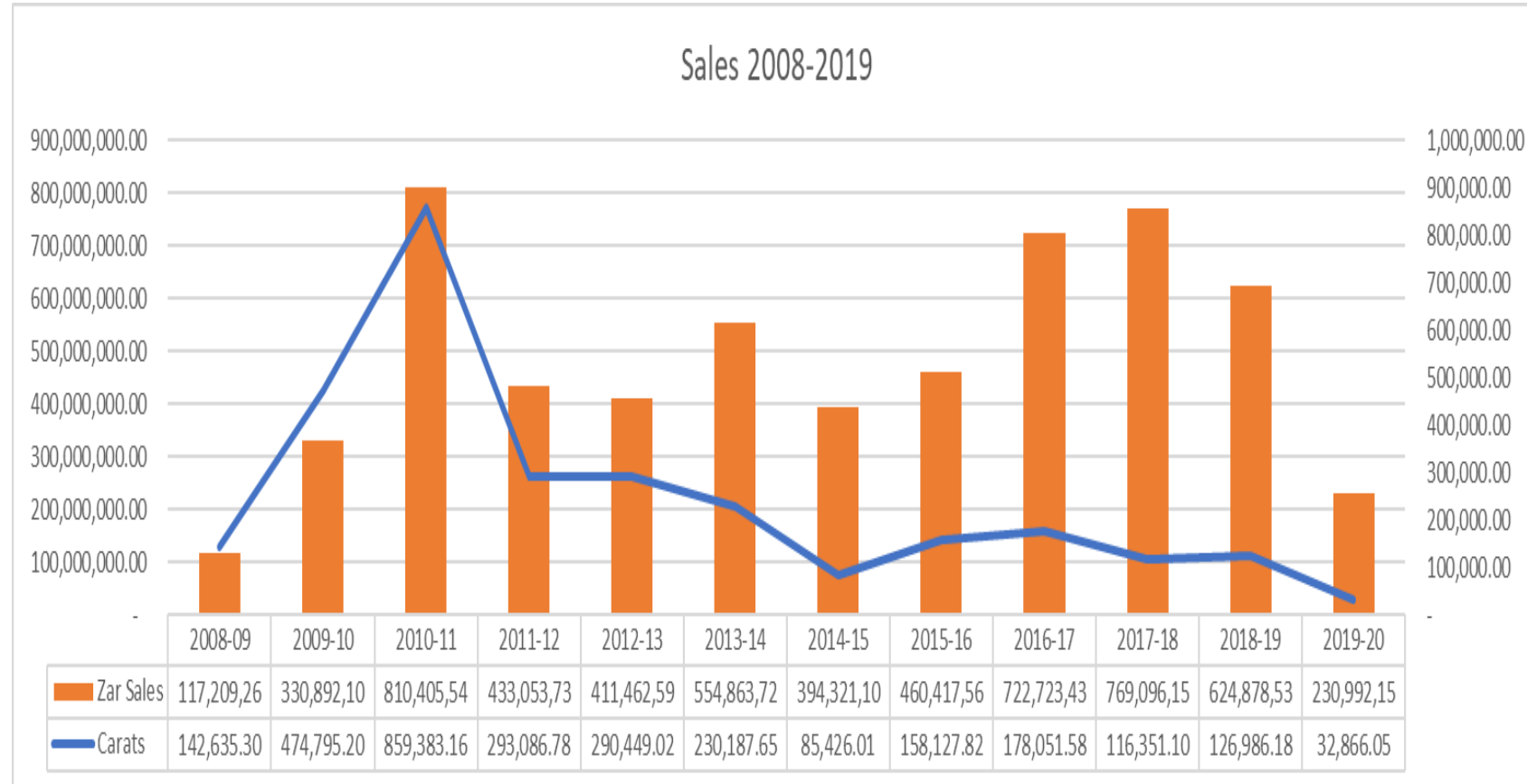
| 2019-20                        | Carats        | ZAR Sales          | ZAR Cost           | % of total |       |
|--------------------------------|---------------|--------------------|--------------------|------------|-------|
|                                |               |                    |                    | Carats     | Value |
| Suitable for beneficiation     | 21 407        | 207 489 409        | 201 682 847        | 45%        | 89%   |
| Not suitable for beneficiation | 11 459        | 23 502 742         | 23 161 643         | 55%        | 11%   |
|                                | <b>32 866</b> | <b>230 992 151</b> | <b>224 844 490</b> |            |       |

# SALES OVER THE 12 YEARS

|                               | 2008/2009   | 2009/2010   | 2010/2011   | 2011/2012   | 2012/2013   | 2013/2014   | 2014/2015   | 2015/2016   | 2016/2017   | 2017/2018   | 2018/2019   | 2019/2020   |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>SDT Sales ZAR</b>          | 117,209,265 | 330,892,108 | 810,405,548 | 433,053,736 | 411,462,599 | 554,863,725 | 394,321,101 | 460,417,569 | 722,723,434 | 769,096,151 | 624,878,531 | 230,992,152 |
| <b>COGS ZAR</b>               | 115,456,836 | 318,101,802 | 774,268,144 | 410,440,046 | 399,803,045 | 538,458,752 | 381,150,996 | 447,200,654 | 698,277,550 | 741,685,172 | 606,118,802 | 224,844,490 |
| <b>GM ZAR</b>                 | 1,752,429   | 12,790,306  | 36,137,404  | 22,613,690  | 11,659,554  | 16,404,973  | 13,170,105  | 13,216,915  | 24,445,884  | 27,410,979  | 18,759,729  | 6,147,662   |
| <b>GM%</b>                    | 3%          | 4%          | 4%          | 5%          | 3%          | 3%          | 3%          | 3%          | 3%          | 4%          | 3%          | 3%          |
| <b>Carats</b>                 | 142 635     | 474 795     | 859 383     | 293 087     | 290 449     | 230 188     | 85 426      | 158 128     | 178 052     | 116 351     | 126,986     | 32 866      |
| <b>No. of clients sold to</b> | 68          | 34          | 60          | 58          | 42          | 46          | 50          | 47          | 46          | 42          | 50          | 38          |

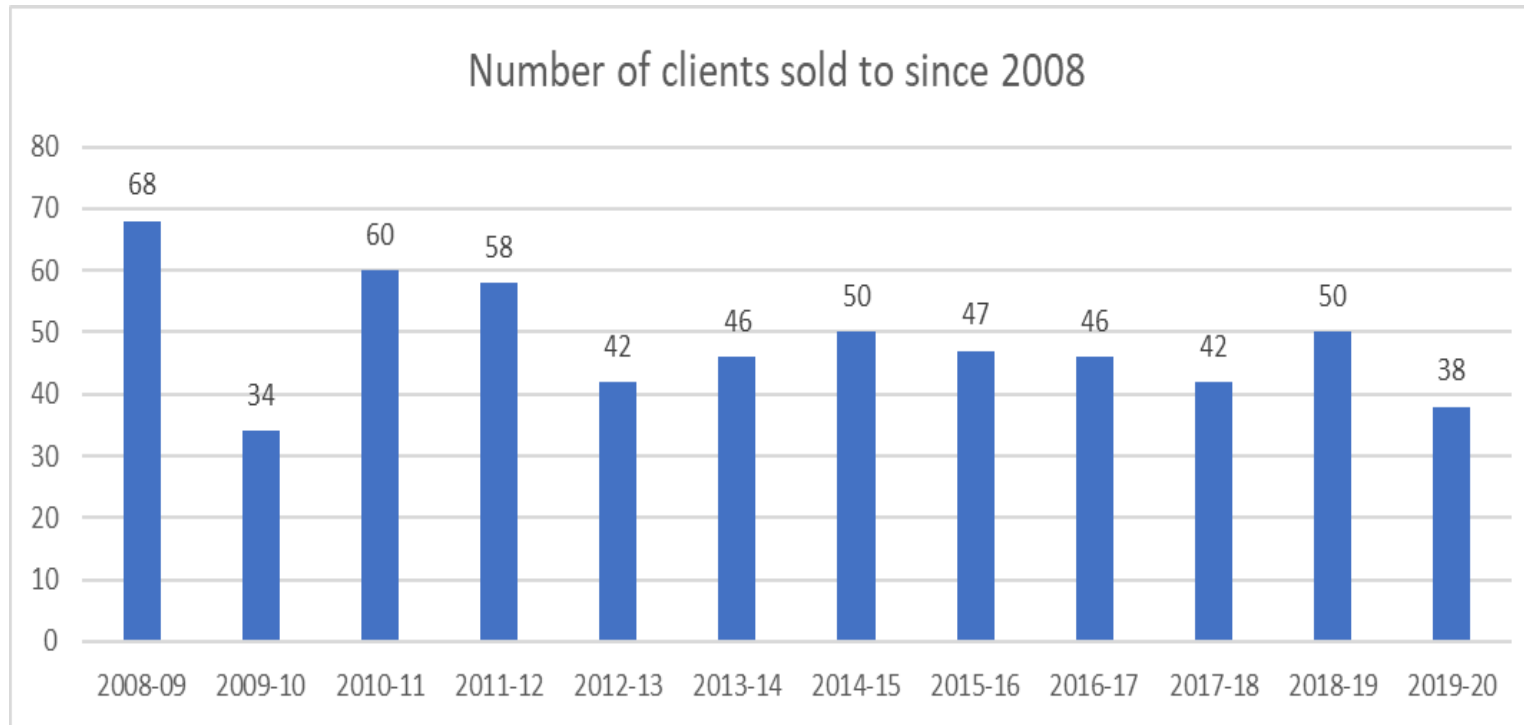


# SALES OVER 12 YEAR PERIOD



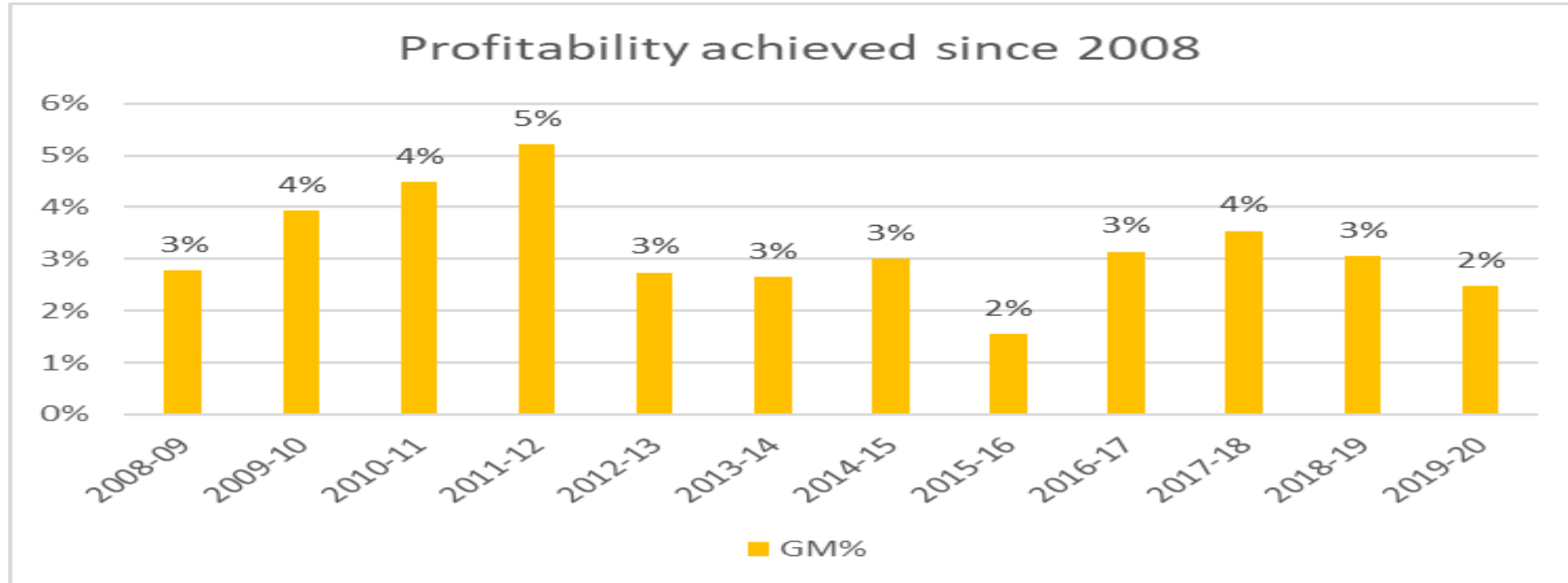
The State Diamond Trader noted a decline in sales in the 2019/2020 financial year . Decline in production levels from De Beers that contributes 60% of State Diamond Trader revenue as well as global market conditions due to US-China trade wars

# SALES BY THE NUMBER OF CLIENTS OVER 12 YEARS

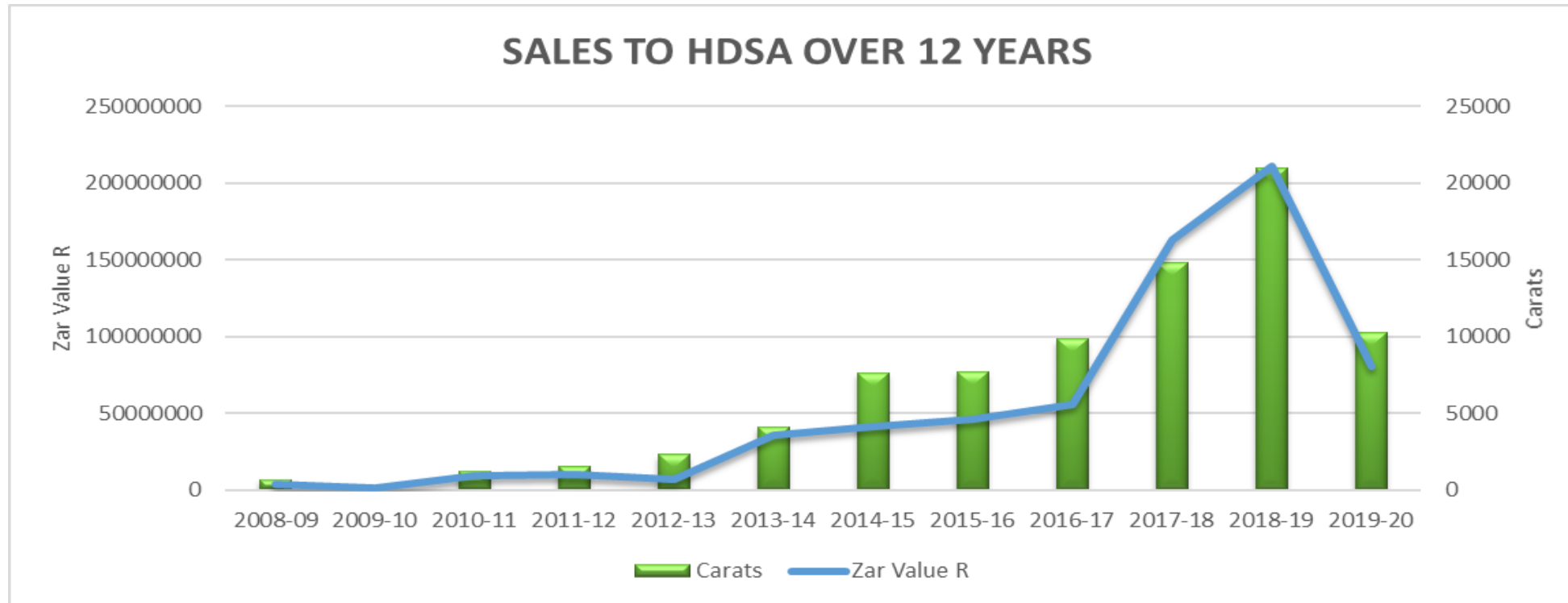


The number of clients sold to over the years has declined since inception. The reason for this is clients find it difficult to secure funding to purchase rough diamonds. A decrease in the number of clients sold to was noted in the 2019/2020 financial year.

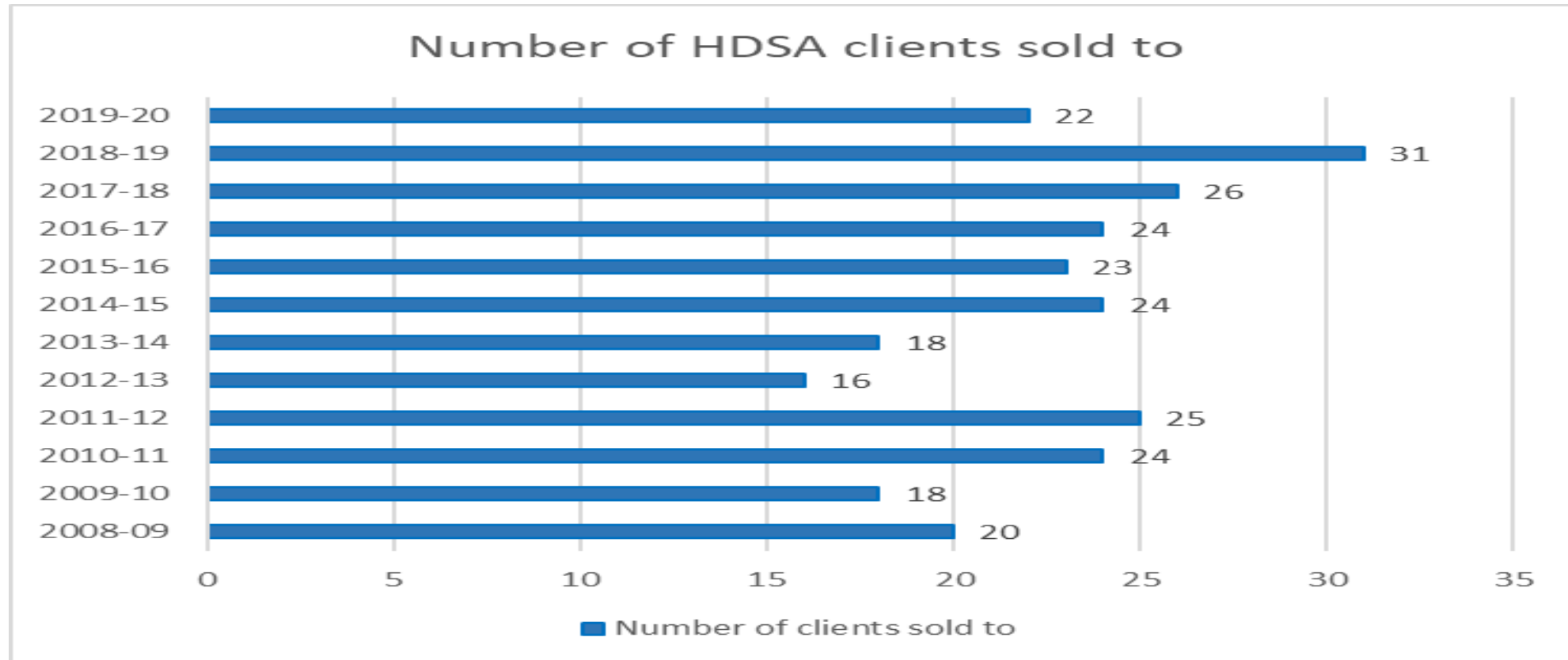
# SALES GM% OVER 12 YEARS



# SALES TO HDSA CLIENTS OVER 12 YEARS



# NUMBER OF HDSA CLIENTS SOLD TO OVER 12 YEARS



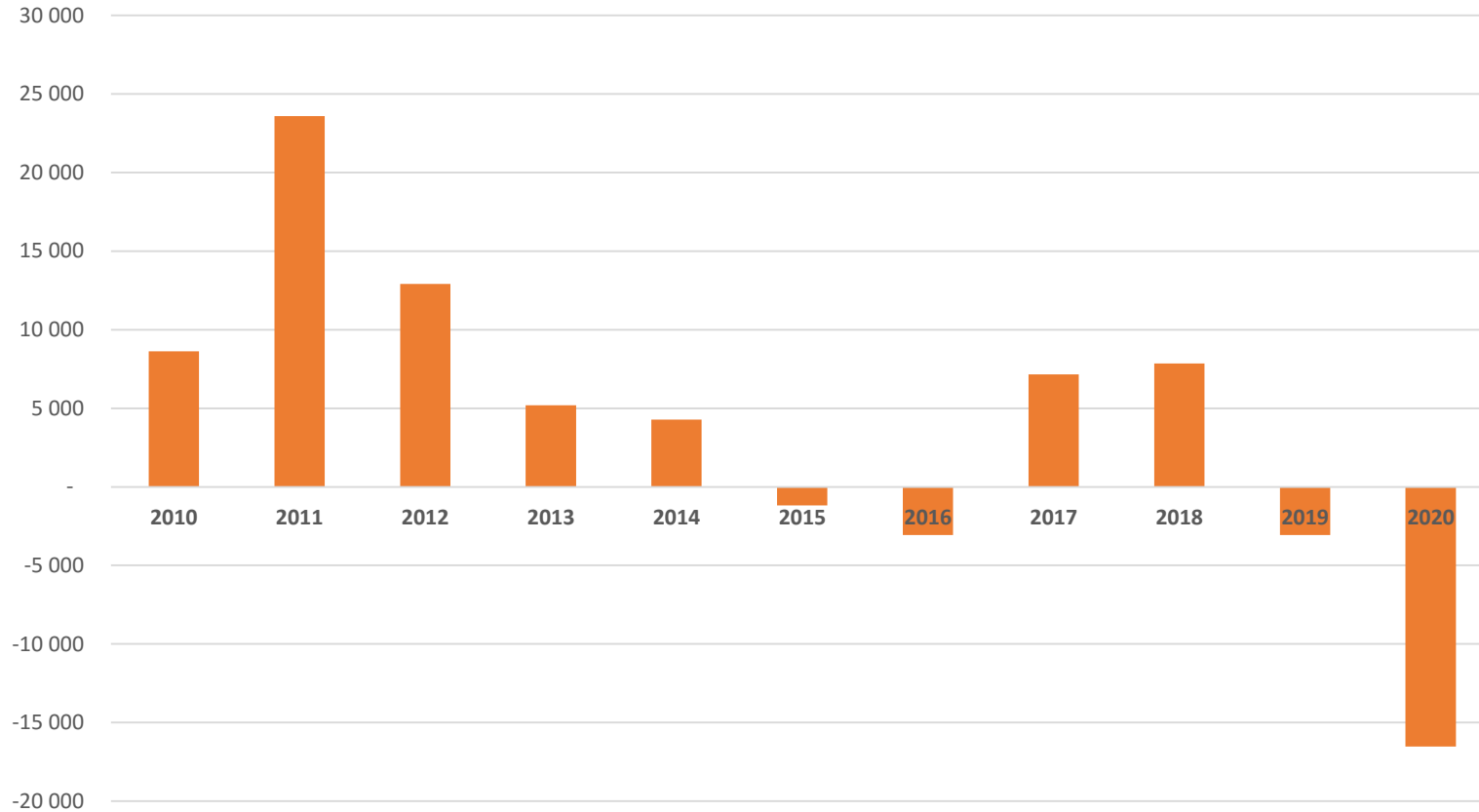


# PAST TEN YEARS FINANCIAL PERFORMANCE



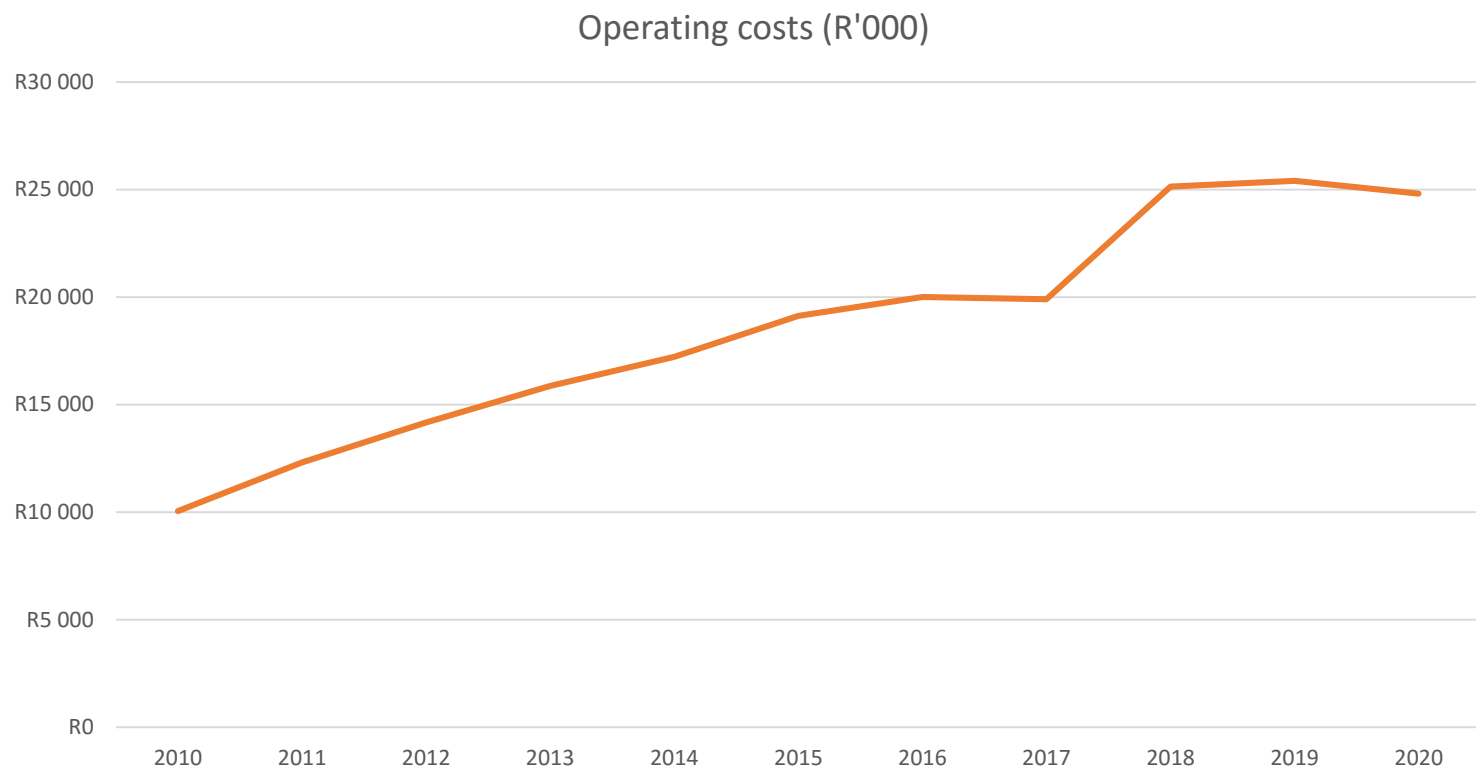
# PROFITABILITY FOR THE LAST TEN YEARS

(Loss)/Profit for the period (R'000)



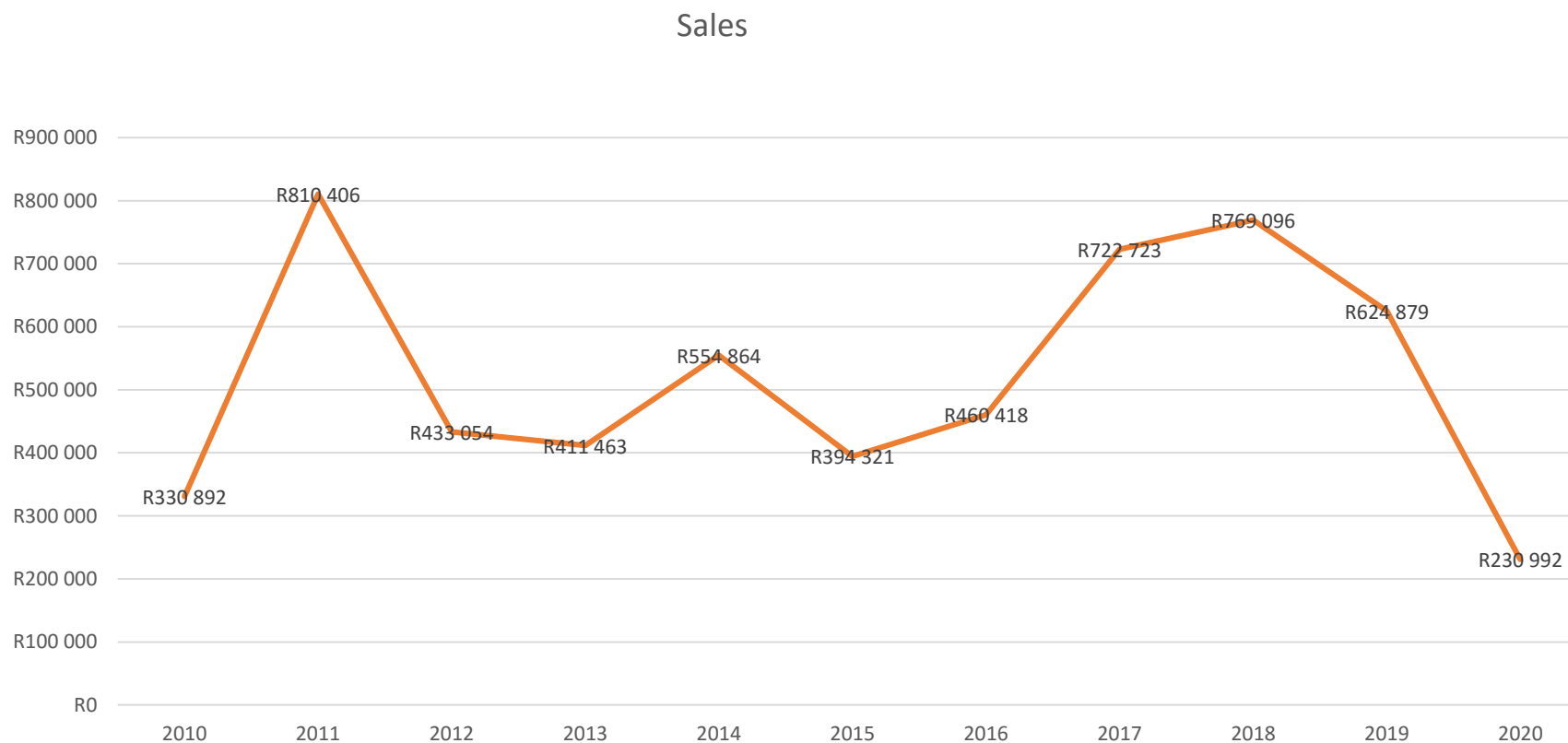
| Financial year | Profit/Loss (R'000) |
|----------------|---------------------|
| 2010           | R8 628              |
| 2011           | R23 595             |
| 2012           | R12 914             |
| 2013           | R5 186              |
| 2014           | R4 270              |
| 2015           | -R1 175             |
| 2016           | -R3 067             |
| 2017           | R7 148              |
| 2018           | R7 843              |
| 2019           | -R3 058             |
| 2020           | -R16 523            |

# OPERATING COSTS FOR THE LAST TEN YEARS



| Financial year | Operating costs(R'000) |
|----------------|------------------------|
| 2010           | R10 050                |
| 2011           | R12 303                |
| 2012           | R14 163                |
| 2013           | R15 863                |
| 2014           | R17 215                |
| 2015           | R19 130                |
| 2016           | R20 000                |
| 2017           | R19 893                |
| 2018           | R25 142                |
| 2019           | R25 408                |
| 2020           | R24 803                |

# SALES FOR THE LAST TEN YEARS



# CASH FOR THE LAST TEN YEARS



| Financial year | Cash at year end (R'000) |
|----------------|--------------------------|
| 2010           | 8 253                    |
| 2011           | 21 115                   |
| 2012           | 31 952                   |
| 2013           | 24 707                   |
| 2014           | 46 466                   |
| 2015           | 23 779                   |
| 2016           | 22 444                   |
| 2017           | 32 476                   |
| 2018           | 38 709                   |
| 2019           | 99 743                   |
| 2020           | 24 226                   |

# SUMMARY FOR THE LAST TEN YEARS

- Over the period production levels from producers have been declining, which means less amounts State Diamond Trader has access to.
- For 2019/2020, 15 producers complied with law, this is on the back of many producers still not being compliant
- State Diamond Trader has made a significant loss in 2019/2020 financial period due to depressed global economy and weak market conditions.
- The operating cost of the entity are mainly fixed.
- Cash reserves were utilised to fund operating costs due to the loss.
- Gross profit margin percentage remain stable at 3% and only reduced to 2% in 2020.



# 2020/2021 FINANCIAL PERFORMANCE



# 2020/2021 BUDGET

|                     |                 |
|---------------------|-----------------|
| BUDGET              | R'000           |
| Revenue             | 42 707          |
| Cost of Sales       | (41 463)        |
| <b>Gross Profit</b> | <b>1 244</b>    |
| <b>Gross Margin</b> | <b>3%</b>       |
| Operating costs     | (22 290)        |
| Finance Income      | 650             |
| Finance expense     | (450)           |
| <b>Profit/Loss</b>  | <b>(20 846)</b> |

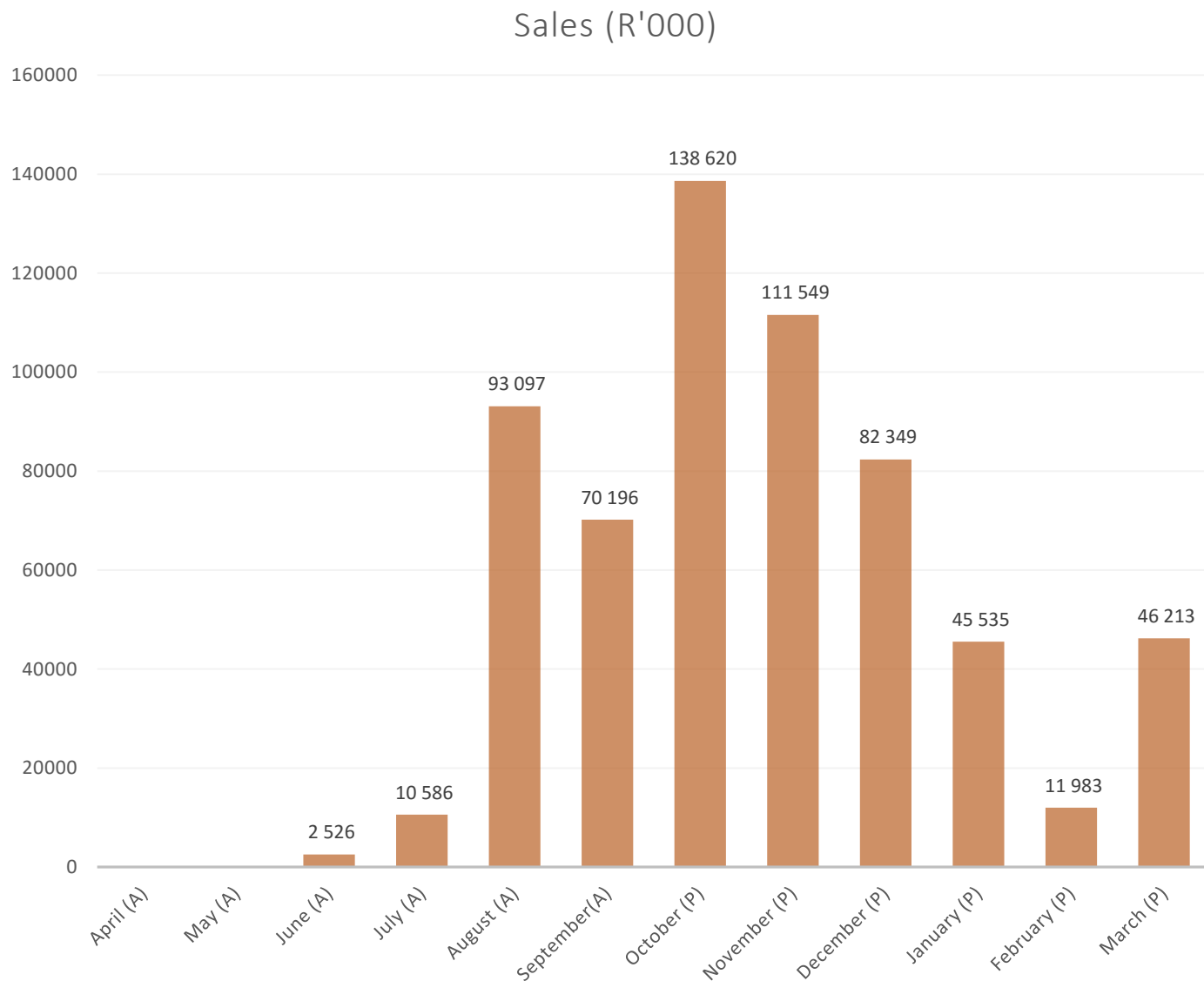
# 2020/2021 FINANCIAL PERFORMANCE

|                     | Actual<br>up to September<br>R'000 | Projections<br>(Oct-March)<br>R'000 | Annual Forecast |
|---------------------|------------------------------------|-------------------------------------|-----------------|
| Revenue             | 176 405                            | 436 248                             | 612 653         |
| Cost of Sales       | (173 038)                          | (422 382)                           | (595 420)       |
| <b>Gross Profit</b> | <b>3 367</b>                       | <b>13 866</b>                       | <b>17 233</b>   |
| <b>Gross Margin</b> | <b>2%</b>                          | <b>3%</b>                           | <b>3%</b>       |
| Other income        | 34                                 |                                     | 34              |
| Operating costs     | (9 368)                            | (12 035)                            | (21 403)        |
| Finance Income      | 385                                | 300                                 | 685             |
| Finance expense     | (25)                               | (25)                                | (50)            |
| <b>Profit/Loss</b>  | <b>(5 607)</b>                     | <b>2 107</b>                        | <b>(3 500)</b>  |

# 2020/2021 CASH FLOW PROJECTIONS FROM OCTOBER TO MARCH 2021

|  | R'000     |
|--|-----------|
| Opening: Cash and cash equivalents as at 30 September 2020 | 17 153    |
| Cash receipts from customers                               | 436 248   |
| Cash payments to suppliers                                 | (422 382) |
| Net cash received from operations                          | 13 866    |
| Less payments to suppliers and employees                   | (11 783)  |
| Less Capital expenditure                                   | (1 800)   |
| Finance Income   | 300       |
| Finance expense  | (25)      |
| Closing: Cash and cash equivalents                         | 16 711    |

# ACTUAL & PROJECTED SALES FOR 2020/2021



# SUMMARY FOR 2020/21 FINANCIAL PERIOD

- The 2020/21 budget is significantly less because the budget was adjusted due COVID19.
- State Diamond Trader has made total sales of R176 million up to September.
- Sales has improved as the countries globally ease the lockdown restrictions.
- The trade was also assisted by shortages of polished in certain categories
- The Loss for the entity at the end of September is R5.6 million this is due non trading in April and May.
- Decision taken to sell some of the old stock to improve cash flow, these sold at loss from June.
- Sales Projections for the last six months of the financial period amounts to R436 million.
- The entity is anticipating to have a performance loss of R3.5 million.
- Cash projections at year end will amount to R16.7 million.

# 2022-2025 PROFIT & LOSS PROJECTIONS

|                      | 2021/22<br>R'000 | 2022/23<br>R'000 | 2023/24<br>R'000 | 2024/25<br>R'000 |
|----------------------|------------------|------------------|------------------|------------------|
| Revenue              | 661 068          | 722 034          | 707 375          | 729 688          |
| Cost of Sales        | (640 570)        | (699 645)        | (685 441)        | (707 062)        |
| Gross Profit         | 20 498           | 22 389           | 21 934           | 22 626           |
| Gross Margin         | 3%               | 3%               | 3%               | 3%               |
| Operating costs      | (22 568)         | (23 697)         | (24 882)         | (26 126)         |
| Finance Income       | 300              | 315              | 331              | 347              |
| Finance expense      | (550)            | (578)            | (606)            | (637)            |
| <b>Profit/(Loss)</b> | <b>(2 320)</b>   | <b>(1 571)</b>   | <b>(3 223)</b>   | <b>(3 789)</b>   |

# 2022-2025 CASH FLOW PROJECTIONS

|   | 2021/22<br>R'000 | 2022/23<br>R'000 | 2023/24<br>R'000 | 2024/25<br>R'000 |
|---|------------------|------------------|------------------|------------------|
| <b>Opening: Cash and cash equivalents</b> | <b>16 711</b>    | <b>14 091</b>    | <b>12 205</b>    | <b>8 651</b>     |
| Cash receipts from customers              | 661 068          | 722 034          | 707 375          | 729 688          |
| Cash payments to suppliers                | (640 570)        | (699 645)        | (685 441)        | (707 062)        |
| Net cash received from operations         | <b>20 498</b>    | <b>22 389</b>    | <b>21 934</b>    | <b>22 626</b>    |
| Less payments to suppliers and employees  | <b>(22 568)</b>  | <b>(23 697)</b>  | <b>(24 882)</b>  | <b>(26 126)</b>  |
| Finance Income                            | 300              | 315              | 331              | 347              |
| Finance expense                           | (550)            | (578)            | (606)            | (637)            |
| Less Capital expenditure                  | (300)            | (315)            | (331)            | (347)            |
| <b>Closing: Cash and cash equivalents</b> | <b>14 091</b>    | <b>12 205</b>    | <b>8 651</b>     | <b>4 515</b>     |



# SUMMARY FOR 2022-2025 PROJECTIONS

- The State Diamond Trader Gross Margin is on average of 3% per annum.
- Operating costs increment is 5% per annum.
- Finance Income is interest from the bank investments
- Finance expense is the interest incurred if the entity have access to the credit facility.
- The entity will make a loss as the overheads exceeds Gross Margin
- Cash Reserves will decline annually as they will be utilized to cover the loss.



# CHALLENGES AND INTERVENTIONS

# CHALLENGES

- The entity currently does not have access to credit facility.
- No financial support from Government as the SDT is listed as a schedule 3B government business as result the entity can only rely on loan funding which is costly.
- The entity rely on Pre-finance for the large purchases as the cash reserves are not enough to cover acquisition of large producers
- The entity is able purchase minimum amount of diamonds for the primary allocation as a result cannot fulfill its mandate to promote equitable access
- Lower margins between 1-5%
- The projected cash flows at year end are not enough to cover operational costs for the next financial period should the entity not make any profit.
- The annual overheads for the entity is R22 million

# INTEVENTIONS

- The entity is in discussion with the Department to finalize the IDC credit facility.
- Consider the changes to the listing of SDT as schedule 3B for SDT to obtain funds from fiscus.
- Revise the business case together with the financial model of SDT
- Review gross margin rates
- Develop revenue enhancement plan
- Develop and maintain relations with other African diamond producing countries for exchanges idea and as long-term strategy, to trade with them
- Review legislation and regulations





# THANK YOU



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