



**Gems & Jewellery
Sector Risk Index**

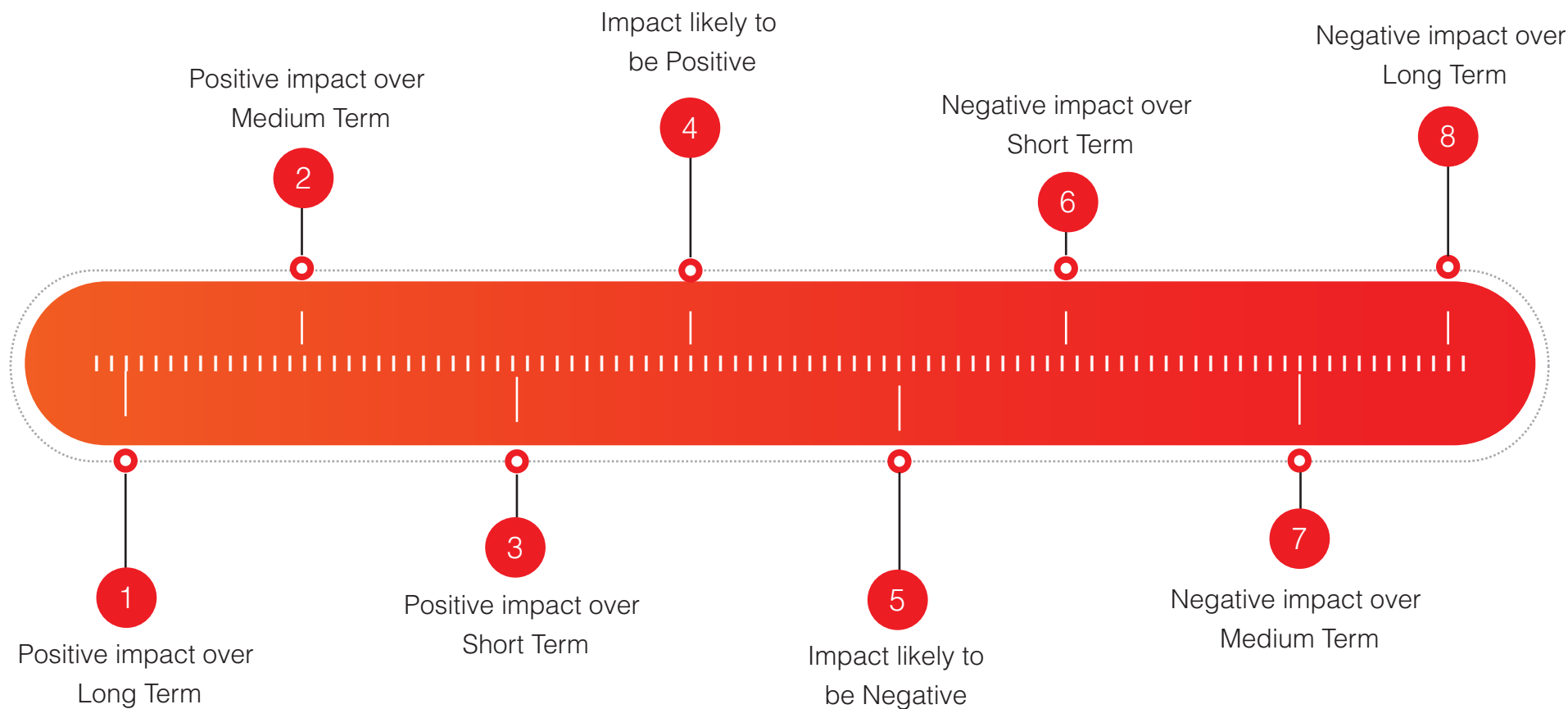
Table of Contents

Explanation of Sector Risk Index	01	Demand Supply Dynamics	12
		Demand Growth	12
Executive Summary	05	Demand Drivers	13
		Import Export Scenario	14
Product Profile	06	Capacity Addition	16
		Price Trend	17
Macro Economic Analysis	07	Competitive Scenario	18
Macro Economic Growth	07	Sector Structure	18
Interest Rate Risk	07		
Foreign Exchange Risk	09	Resource Risk	20
Government Regulations	10	Financial Risk	21
Duty Structure	10	Key Ratios	23
Government Initiatives	11		

Explanation of Sector Risk Index

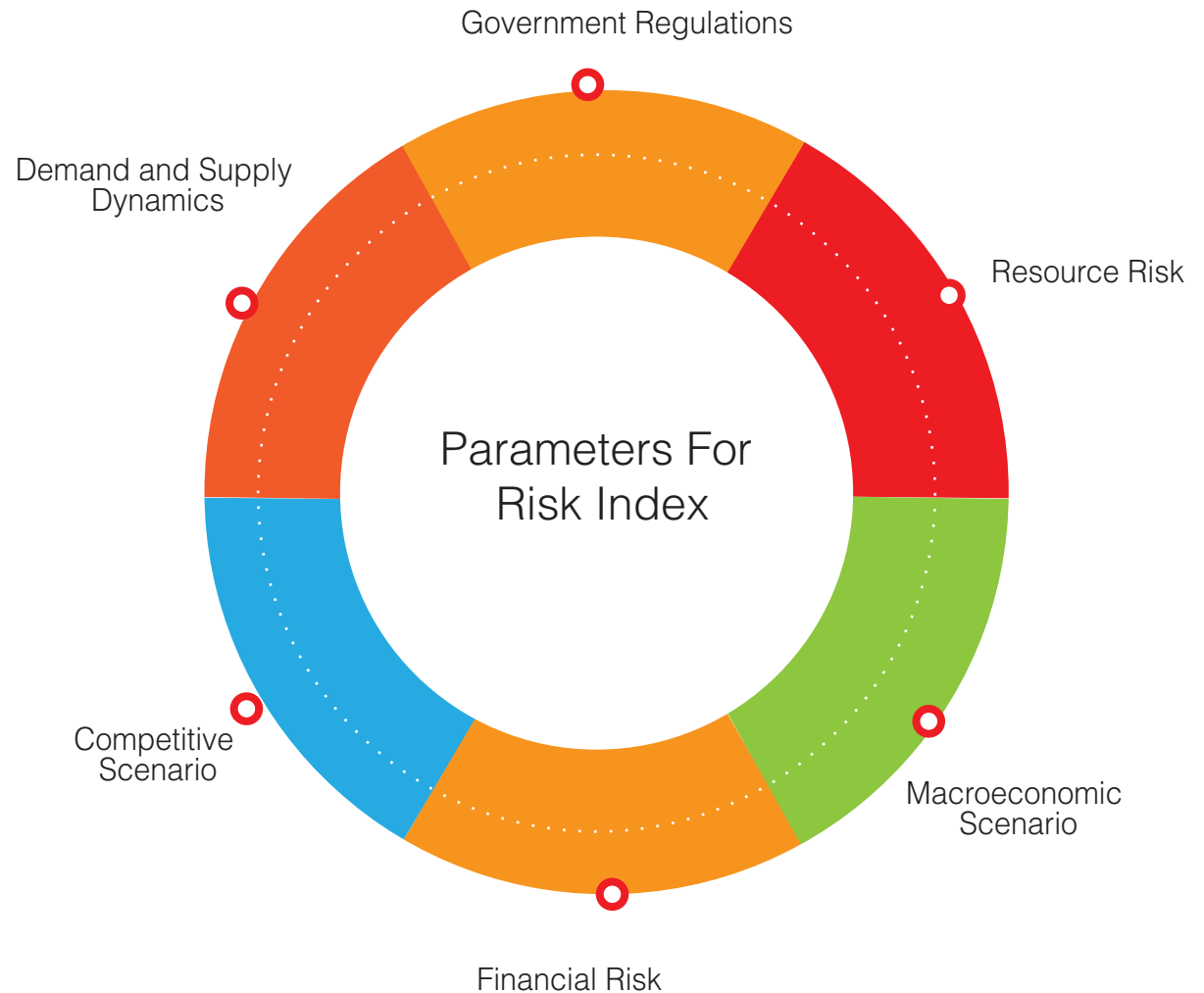
Sector Risk Index reflects the effect that the various factors have on the business prospects and operating environment of the sector over the next 12 months. The risk index arrived at is an aggregate of the individual scores assigned to the relevant sector parameters identified.

The sector risk index has been graded on an 8 point scale with 1 indicating low risk and 8 indicating high risk.



Parameters for Sector Risk Index

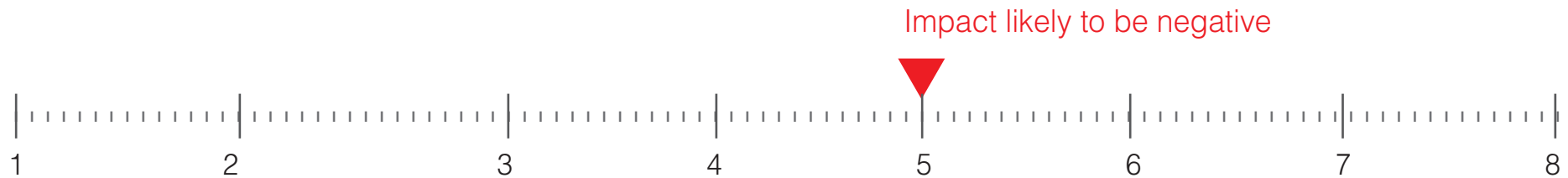
The selected parameters are government regulations, demand supply dynamics, competitive scenario, macro-economic variables, resource risk and profitability and cost structure. The scores given to individual parameters reflect the extent of positive/ negative impact on the business operating environment.



With increasing urban disposable income, demand for branded jewellery is expected to increase. However, the branded segment faces stiff competition from regional/local family brands.



Risk Index of Gems and Jewellery Sector



↔ Demand and Supply Dynamics

Exports to the US are likely to grow, after remaining muted till recently due to improved consumer confidence. This, along with higher disposable income in the hands of consumers, may support export volumes of gems & jewellery in FY15

↑ Macro Economic Scenario

India's gross domestic product (GDP) has been growing at an average rate of approximately 6.33% during the period from FY 2011–12 to FY 2014–15

↓ Resource Risk

There is very little domestic production of gold, which has resulted in very high dependence on imports and made the sector susceptible to any regulations that constrain gold supply.

↓ Competitive Scenario

With large number of unorganised players available in the market, branded segment faces stiff competition.

↓ Financial Risk

Due to the presence of large number of unorganised players and volatile gold price, margins are under pressure

↑ Government Regulations

The Government of India has allowed 100% foreign direct investment (FDI) in gems and jewellery sector through the automatic route.

Executive Summary

- 1** The domestic gems and jewellery sector had a market size of INR 2510 billion in FY 2013-14, with a potential to grow to INR 5000–5300 billion by FY 2017-18.
- 2** India's gems & jewelry sector is one of the most important contributors to the country's export-led growth. It constituted around 14% of the total exports in FY 2013-14.
- 3** Domestic demand of gems and jewellery sector is likely to boost on account of higher volume uptake due to the expected fall in gold prices. Also, with expansion plans of industry players. The top-line is expected to show a growth.
- 4** The sector is characterised by large number of fragmented players, labour intensive operations, working capital and raw material intensiveness, price volatility of gold and export orientation.
- 5** The government has taken significant steps for the gems & jewellery exports in terms of duties and taxes, infrastructure (SEZ, EPZ's etc).

Product Profile

- 1** The two major segments of the industry are gold jewellery, which covers around 80% of the jewellery market and diamonds.
- 2** A large amount of gold jewellery manufactured in India is consumed in the domestic market. In diamonds, however, a major portion of the cut & polished diamonds (CPD) is exported.
- 3** Diamonds account for 54% of the total gems and jewellery export basket of the world and India is the world's leading exporter of cut & polished diamonds.
- 4** There is a very low threat of substitutes, although substitutes such as synthetic diamonds and nonprecious metals are expected to capture a share of precious jewellery market.

Figure 1. Product Profile of Gems & Jewellery



Macro Economic Analysis

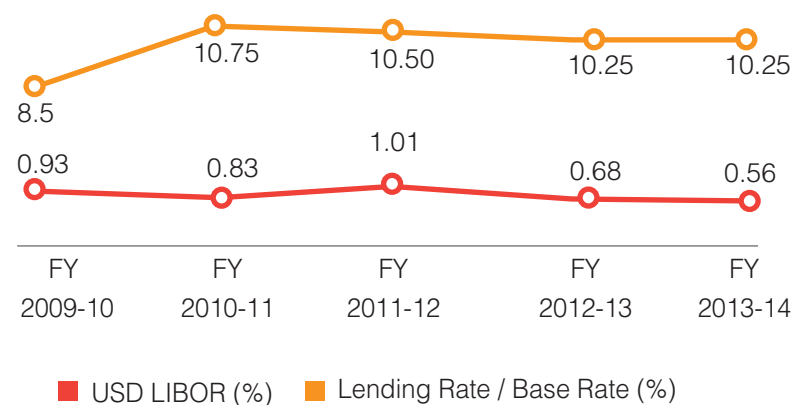
Macro-Economic Growth

- 1** India's gross domestic product (GDP) has been growing at an average rate of approximately 6.33% during the period from FY 2011–12 to FY 2014–15 and has touched USD 2.05 trillion in financial year 2014–2015 (FY 2014–15).
- 2** Rising disposable incomes and changing lifestyles have contributed considerably to the growth of Indian gems and jewellery sector.
- 3** With export forming a significant part of the gems and jewellery sector and improvement in US and European markets, the overall performance of the sector is expected to improve.

Interest Rate Risk

- 1** Interest rates have remained stable in the domestic market at an average of 10% from FY 2010-11 to FY 2013-14. However, the interest rates in the international market have dropped down significantly on account of the slump in the global economy.
- 2** With expansion in the global economy, there will be an upward pressure on the interest rates worldwide

Figure 1. Interest Rate Trends (Domestic and International)



Source: Reserve Bank of India

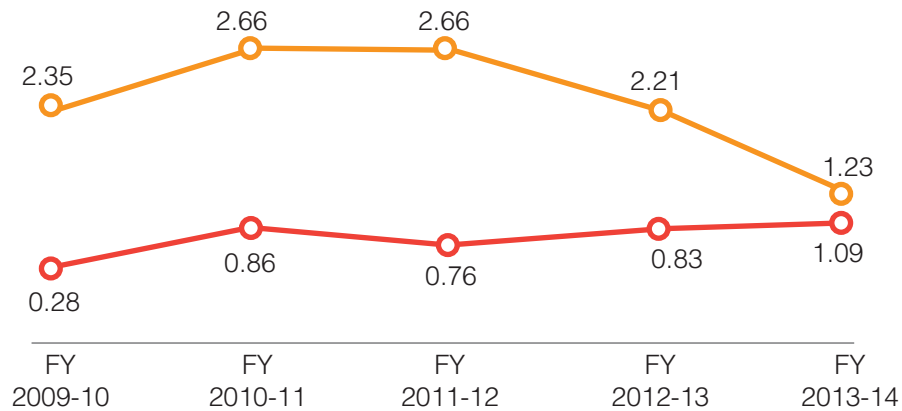


Macro Economic Analysis

Interest Rate Risk

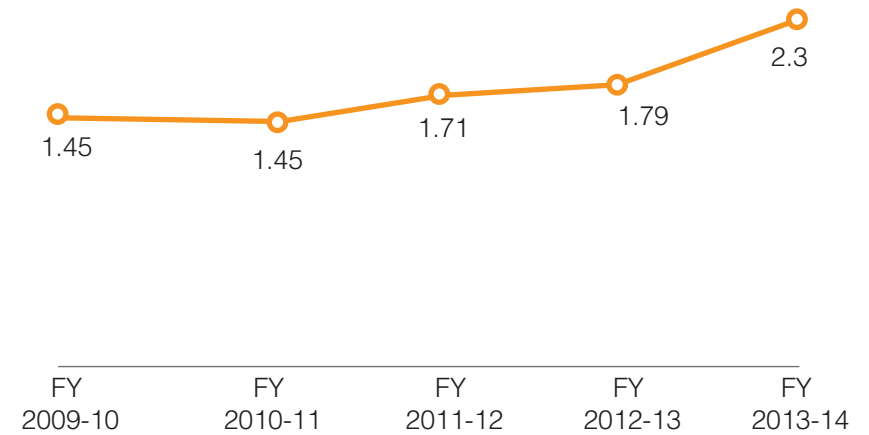
1 Debt equity for the companies in the sector have risen in FY14 thereby reflecting higher dependence on borrowed funds. The overall interest expenses have also gone up thereby leading to the squeezing of profit margins.

Figure 2. Interest Rate Risk



■ Interest Coverage Ratio (Times) ■ Debt-Equity Ratio (Times)

Figure 3. Interest Payments as a % of Sales



Source: CMIE Prowess

2 With the entry of organised players in the market, further capacity additions are expected. Also with the introduction of machine made jewellery making instead of handcrafted jewellery, there would be higher cost involved in the setting up of a jewellery manufacturing unit.



Macro Economic Analysis

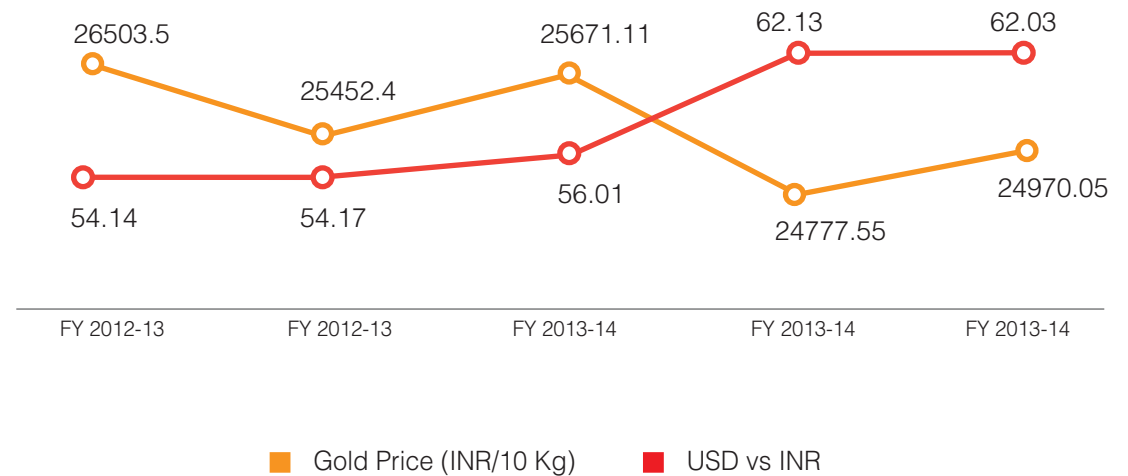
Foreign Exchange Fluctuations

1 Gems and jewellery sector is highly dependent on import for sourcing of raw materials such as rough diamond and gold bars. Net exports in gems and jewellery constitute approximately 13% of the total exports in FY 2013-14.

2 Gold prices have a positive correlation with the rupee movement. With the depreciation in the value of rupee against dollar, gold prices go down.

3 Due to further strengthening in the US and Eurozone GDP growth rates in FY 2014-15, US dollar is expected to strengthen against other currencies thereby leading to decline in the prices of gold.

Figure 4. Foreign Exchange Rate Movement



Source: RBI.org



Government Regulations

Duty Structure

Excise duty on precious metals like platinum, silver and gold was 12% in FY 2013-14.

Excise duty on pearls, precious stones, semi-precious stones and jewellery including imitation jewellery was 12%. There was no excise duty applicable on diamonds in FY 2013-14.

Customs duty on precious metals like gold, silver and platinum was 10% in FY 2013-14. There was no change in the rate as compared to last year.

Customs duty on pearls, diamonds, precious stones, semi-precious stones, and jewellery including imitation jewellery was 10%.



Government Regulations

Government Initiatives

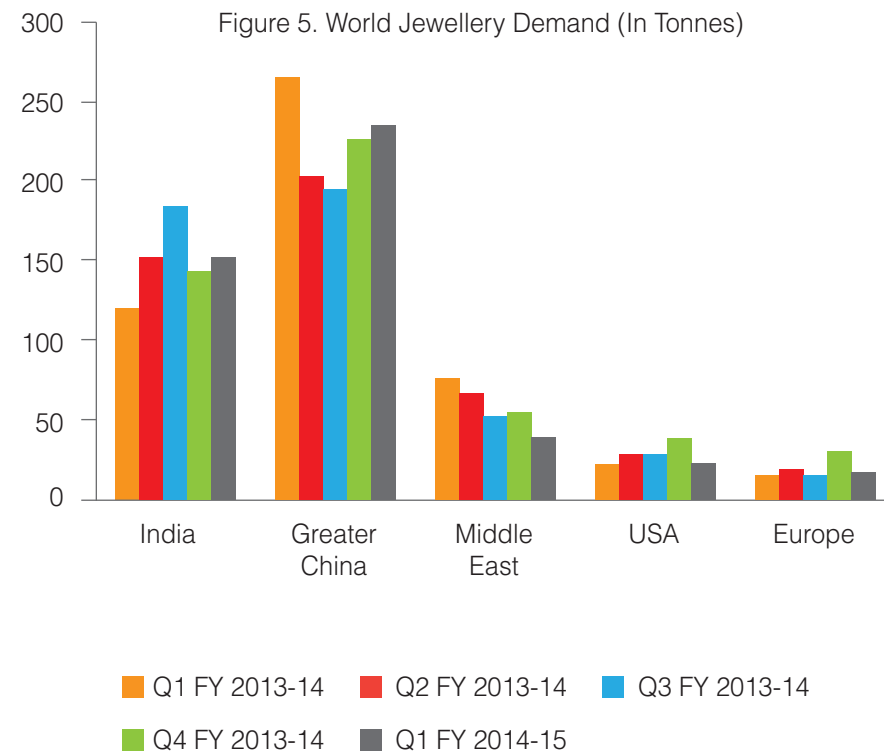
- 1** The Government of India (GoI) plans to promote the gems and jewellery sector in a big way through its New Foreign Trade Policy (2009-2014).
- 2** Gems and Jewellery Skill Council of India is planning to train over four million persons till 2022 as the sector is facing shortage of skilled manpower
- 3** Various SEZs for gems and jewellery sector have been set up in Maharashtra, West Bengal, Rajasthan and Andhra Pradesh. Further, formal approval has been given to 13 SEZs in the sector — three have got in-principle approval and seven have been notified, as per the SEZ Board of Approval statistics.
- 4** The Government of India has allowed 100% foreign direct investment (FDI) in gems and jewellery sector through the automatic route.
- 5** The government of India is providing financial assistance for participation in international fairs and organizing buyer-seller meets, etc. under the Market Development Assistance (MDA) and Market Access Initiative (MAI) Schemes of the Department of Commerce.



Demand Supply Dynamics

Demand Growth

- 1** The Jewelry Market in India is expected to grow at a CAGR of 15.95% over the period 2014-2019.
- 2** The global market for gems and jewellery in FY2013-14 is over INR 6000 billion, with jewellery demand dominated by countries like India, China, Middle East, the USA, etc.
- 3** Total export in gems and jewellery has shown a decline of 9% and 10% in FY 2012-13 and FY 2013-14, respectively. The decline was mainly in the export of gold jewellery. The demand for cut & polished diamond has picked up by 13% complemented by a growth in import by 12%.
- 4** With improvement in global economy, the demand of jewellery is expected to improve from US and Hong Kong and register better growth.



Demand Supply Dynamics

Demand Drivers

- 1** Gems and jewellery sector is highly price sensitive and is also income elastic.
- 2** Demand drivers for gems and jewellery in the domestic market are:
 - rising income levels and changing consumer preferences
 - Increasing penetration of organised players provides variety in terms of products and designs. These players are also offering financing schemes to consumers to further boost sales.
 - Jewellery has a special significance in Indian culture and has been an integral part of their lifestyle for centuries
- 3** Gold is the second most preferred investment option.
- 4** India has the largest and the best artisan force for designing and crafting the jewellery in the world. Low cost of labour has helped gems and jewellery to mark its presence on the global platforms.
- 5** India has one of the most advanced technology for processing of rough diamonds and is also known as the diamond polishing capital of the world.

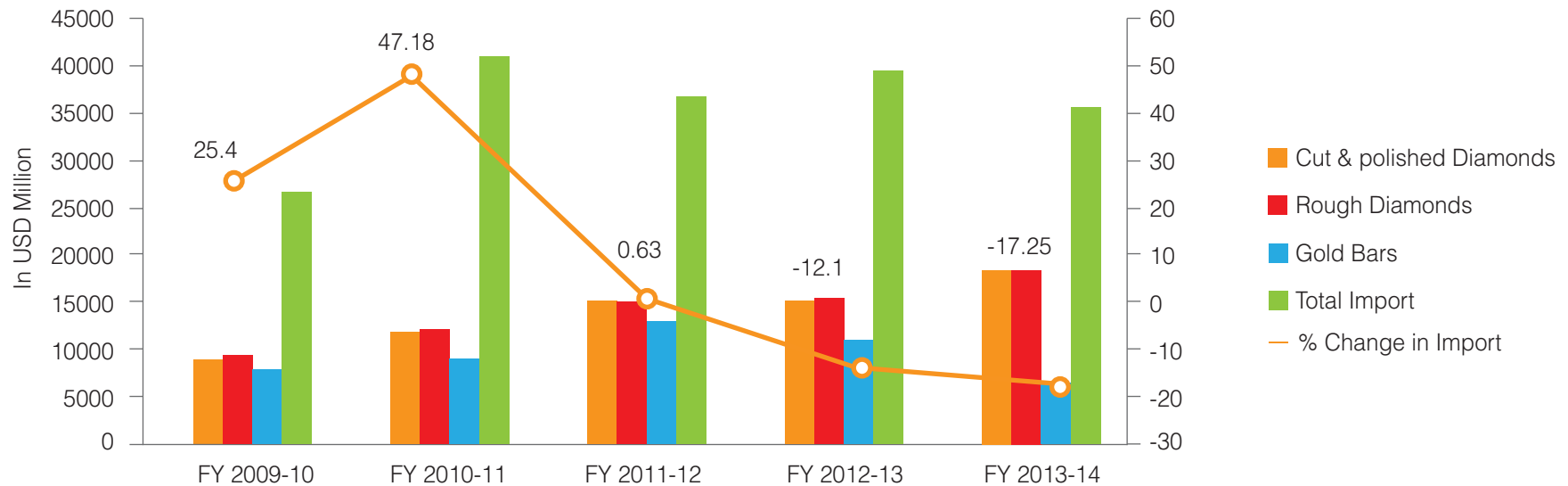


Demand Supply Dynamics

Import Export Scenario

Imports in India showed a fluctuation over the last 5 years with a decline of more than 15%. A major part of the decline in imports can be attributed to the sharp decline in shipments of gold bars and jewellery due to government curb. There was a significant drop in imports of gold bars and jewellery because of the restrictions, although inward shipments of rough and polished diamonds remained firm.

Figure 6. Gems and Jewellery Import Trend



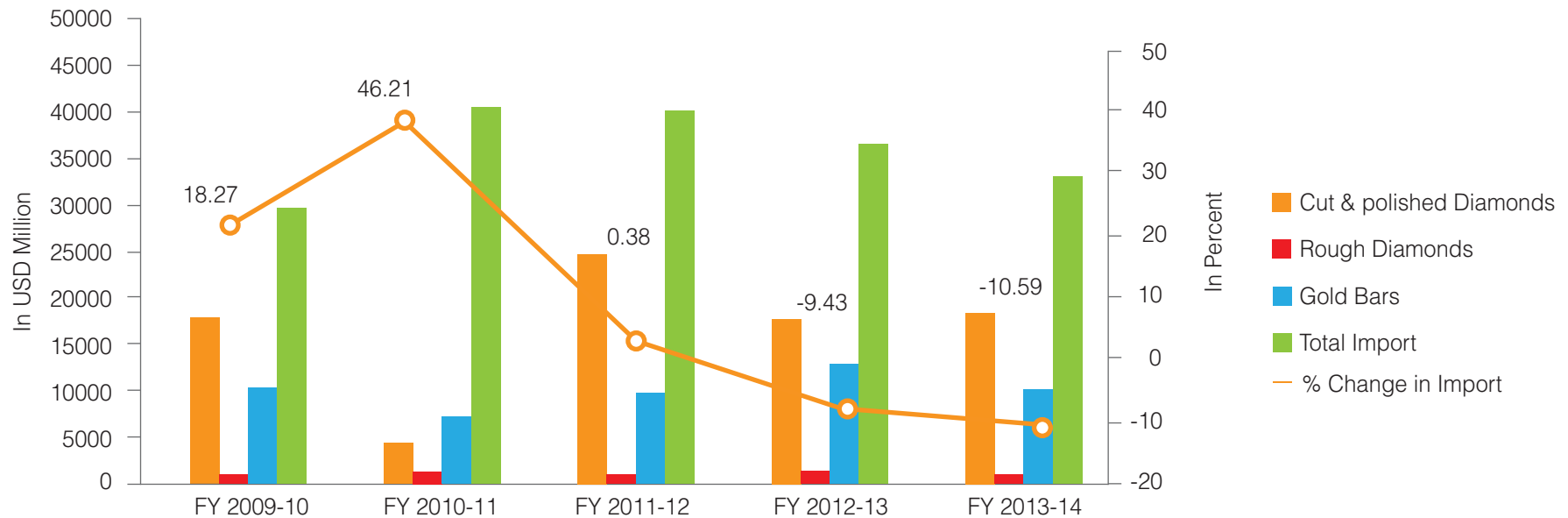
Source: Gems and Jewellery Export Promotion Council

Demand Supply Dynamics

Import-Export Scenario

Exports of gems and jewellery showed a decline of 10.59% at USD 34993 million in FY 2013-14 compared to the same period in previous year. The significant decrease in the gems and jewellery export is attributed to the drastic decline in the gold jewellery and gold medallion export at 37.70% during the year. The decline in gold jewellery export was mainly due to stringent gold import policies implemented from July 2013. This had resulted in a virtual export halt for a few months. Another reason was the 11% fall in gold prices globally. However, the polished diamond export registered an increase of 12.64% at USD 19643 million as compared to the previous years.

Figure 7. Gems and Jewellery Export Trend



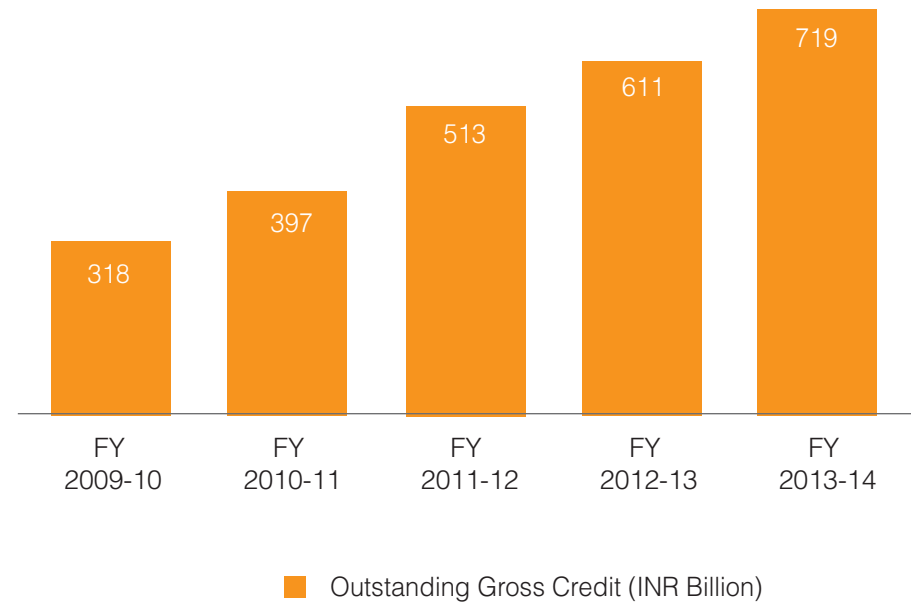
Source: Gems and Jewellery Export Promotion Council

Demand Supply Dynamics

Capacity Addition

The gems and jewellery sector registered an increase in the credit deployment with a CAGR of 22% from FY 2009-10 to FY 2013-14. The gems and jewellery sector accounted for 2.71% of the total credit disbursed during the period.

Figure 8. Gross Bank Credit Deployment (In INR Billion)



Source: Reserve Bank of India

New Announcements in the gems and jewellery sector

Rajesh Exports limited has planned to invest around INR 65 billion in order to open its 550 outlets over the next three years

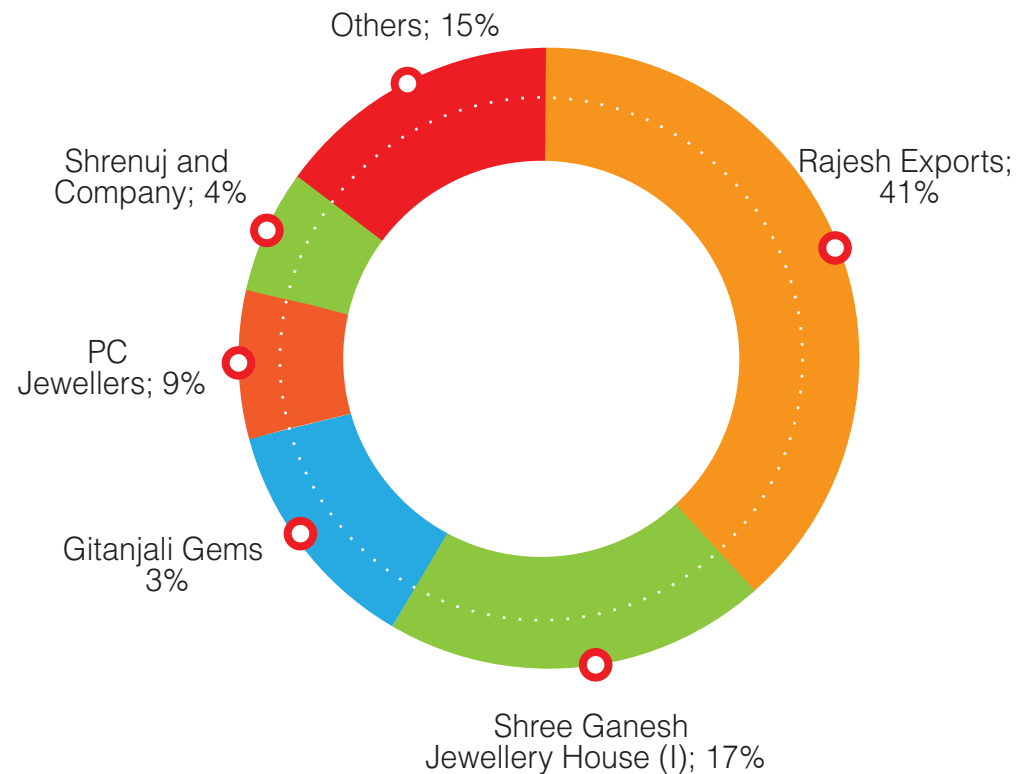
Gold jewellery chain major Kalyan Jewellers will invest INR 15 billion (US\$ 242.56 million) in 2014 to increase its network of showrooms across the country and the Middle East.



Competitive Scenario

- 1** Gems and jewellery is predominantly an export oriented sector contributing to the extent of around 13% of the total exports in FY 2013-14.
- 2** India is the world's largest consumer of gold and third largest consumer of diamond jewellery after Japan and USA.
- 3** The Indian gems and jewellery market continues to be dominated by the unorganised sector. Family jewellers constitute nearly 96% of the total market share.
- 4** Organised players such as Tata with its Tanishq brand and Gitanjali a pioneer in the branded jewellery segment have, however, been growing steadily carving a 4 per cent market share. As India's jewellery market matures, it is expected to get more organised and the share of family jewellers is expected to decline.

Figure 9. Company wise Market Share



Competitive Scenario

- 5** It is expected that, going forward, traditional players will coexist with modern players — this is, in fact, the trend in international markets where independent jewellers still hold significant market share.
- 6** Due to a low gestation period of 12-15 months, barriers to entry were low in the diamond manufacturing unit. However, with the entry of organized players, this trend is changing.
- 7** Presently India is the dominant player as a processing hub for diamond, but India faces future threats for competition from various countries.



Resource Risk

- 1** High import dependence and regulatory curbs impact both consumption and investment demand of the market. There is very little domestic production of gold, which has resulted in very high dependence on imports and made the sector susceptible to any regulations that constrain gold supply.

- 2** India has to import almost its entire raw material requirement of rough diamonds, gold bars and recycled gold from countries like Switzerland, South Africa, Australia, Hong Kong, and UAE.
 - The cost of gold in India is linked to the value of the rupee against dollar as most of the gold requirement is imported.
 - Though the dollar has gained significantly against other major currencies, the Indian rupee has shown remarkable resilience. The rupee has held on to the 61/dollar level despite a lot of turmoil in the global currency markets last month.

- 3** Gems and jewellery sector is labour intensive and India has a large number of skilled resources at lower cost. This gives a competitive advantage to India:

- 4** India has a pool of skilled manpower which is able to integrate technology with the traditional skills in jewellery designing and innovation.



Financial Risk

After registering a growth continuously till FY 2012-13 there has been a decline of more than 16% in FY 2013-14. The key reason for fall in the revenue being decline in sales volume of CPD and volatility in the price of diamond and gold

Figure 10. Sales Trend (In INR Billion)

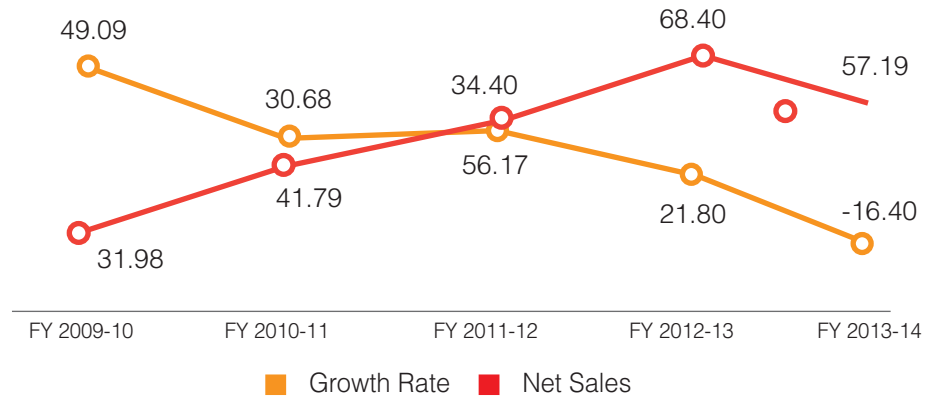


Figure 11. Cost Structure (In %)



EBITDA margin remained stable till FY 2011-12 and declined sharply in FY 2012-13 as the market players had to offer discounts to customer due to a rise in domestic gold prices in the face of muted consumer demand.



Financial Risk

Key Indicators	Unit	FY 2013-14
EBITDA Margin	%	5.84
Net Profit Margin	%	1.67
Return on Capital Employed	%	4.01
Return on Equity	%	7.07
Current Ratio	Times	1.20
Quick Ratio	Times	0.92
Debtor Days	Days	103
Payable Days	Days	63
Inventory Days	Days	93
Interest Coverage Ratio	Times	2.19
Total outside liabilities/ Total Net worth	Times	1.97
Debt-Equity Ratio	Times	0.93
Asset Turnover	Times	1.46

Source: CMIE Prowess

Sample Set : 40 Companies



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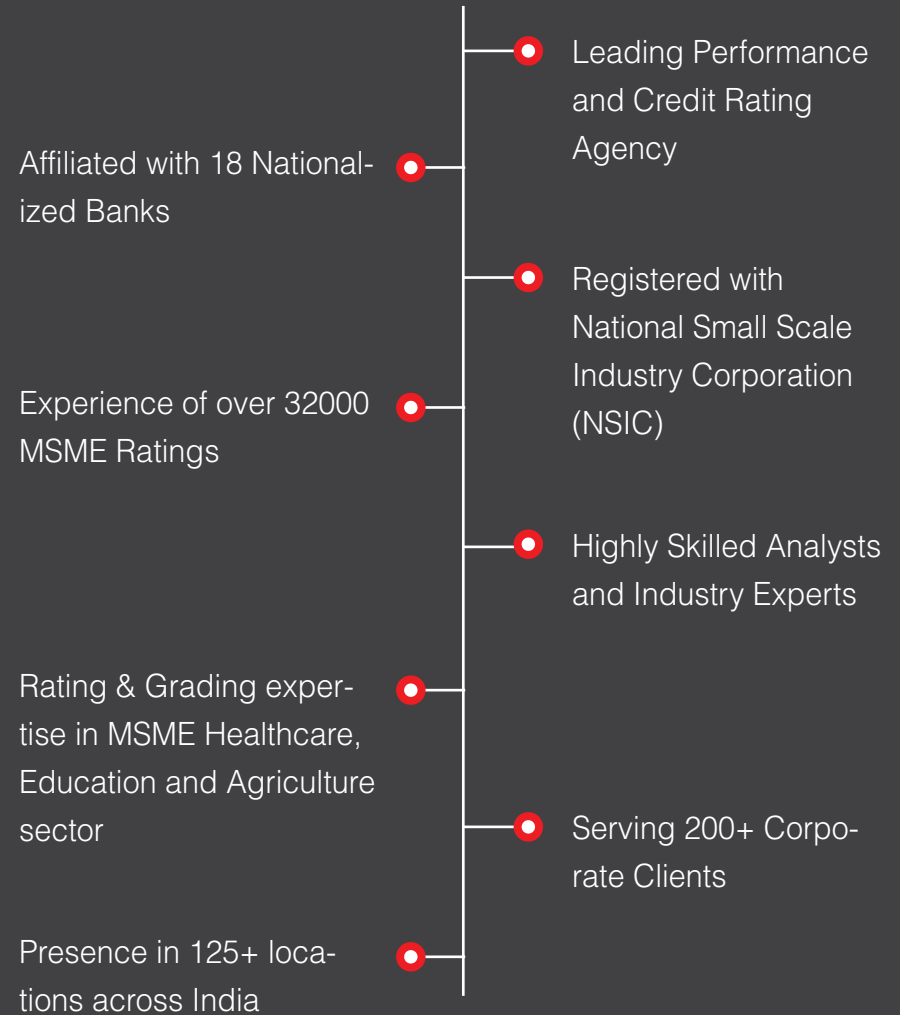
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