

# CHANGING TRENDS: GEMS & JEWELLERY INDUSTRY

November 2013

*Growing presence of the organised retail players is going to boost the performance of the Industry*



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## Executive Summary

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The Indian Gems & Jewellery Industry is the back bone of the economy by being one of the major contributors towards the export led growth of India. The industry has gained global popularity because of its talented craftsmen, its superior practices in cutting and polishing fine diamonds and precious stones and its cost-efficiencies.

The two major segments of the industry are gold jewellery (covers around 80% of the jewellery market) and diamonds. India is one of the world's largest manufacturers of cut and polished diamond with an aggregate contribution of approx. 60% of the world's supply in terms of value and 80% in terms of volume. The industry contributes more than 14% towards the total export in India and provides employment to 1.3 million people directly and indirectly. The global market for gems and jewellery is over USD 100 billion with major contribution coming from India, Italy, China, Thailand and USA.

## Indian Gems and Jewellery Market

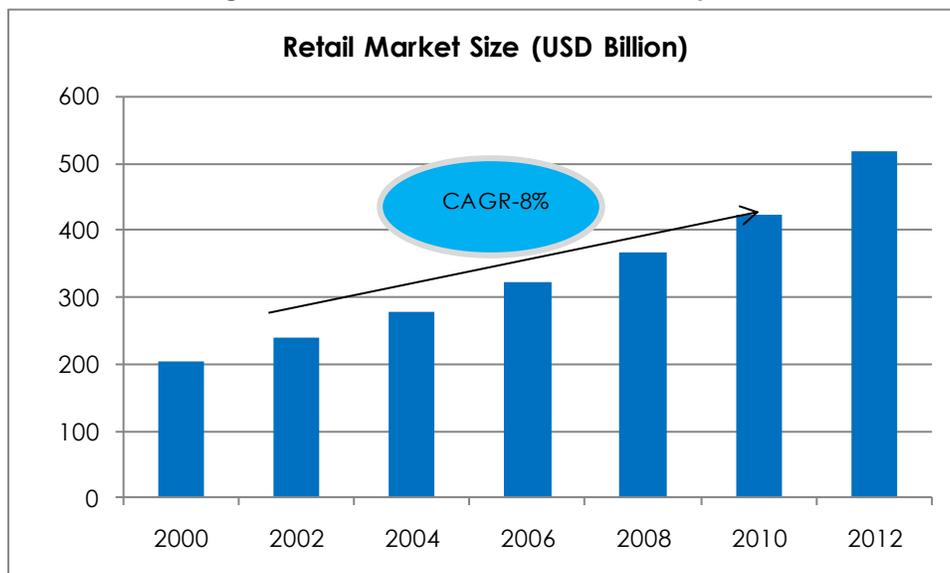
The domestic gems & jewellery market in 2012-13 is estimated to be USD 40 billion and is expected to grow by 13% per annum to reach USD 45-50 billion by 2015. India's gems & jewellery industry is one of the important contributors to the country's export-led growth. According to the provisional data by Gems and Jewellery Export Promotion Council (GJPEC), the total exports of Gems and Jewellery during April 2012 to March 2013 stood at USD 39.03 billion, including that of cut and polished diamonds at USD 17.41 billion, gold at USD 18.28 billion and coloured gemstones at USD 0.65 billion.

The demand for the gold ornaments comprises of more than 80% of the domestic jewellery consumption along with other precious metals. The financial year 2012-13 ended on a positive note with imports of rough diamonds going up by 12.65% indicating an increase in cutting, polishing and other manufacturing activities in India.

### *With the rise in Organised Retail, Gems and Jewellery Industry is bound to get a boost*

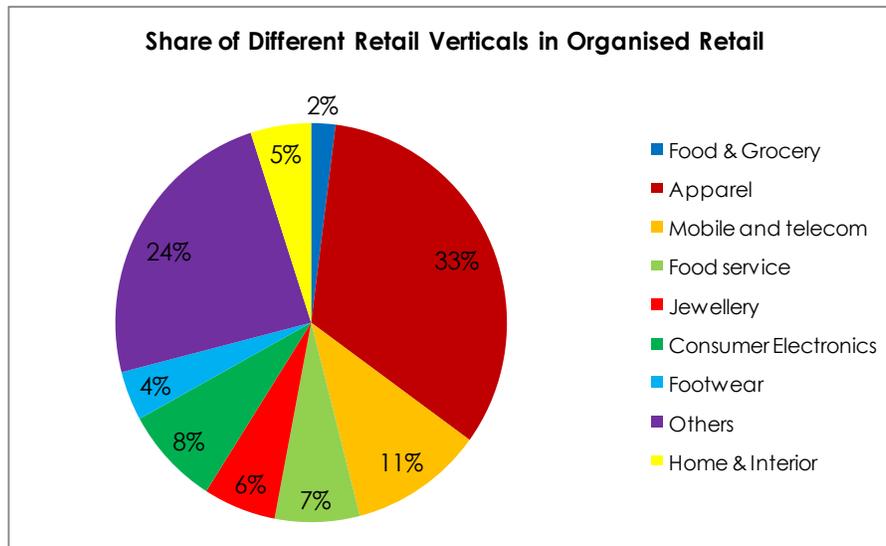
The Indian retail industry has experienced an exponential growth with retail development taking place in major cities and metros. India is expected to reach a total retail market size of USD 750-850 billion by 2015 from the current size of USD 560 billion.

Figure1. India's Retail Market Size over the years



Organised retail constitutes 8% of the total retail market and the same is expected to grow rapidly in the coming years in response to the opening up of FDI in multi brand retail. Gem and Jewellery constitutes 6% of the total organized retail.

Figure 2: Percent Share of Various Verticals in Organised Retail



Until recently the trend that was followed in Indian jewellery market was of buying jewellery from the trusted neighborhood jewellers. However with the opening up of branded retail in jewellery the trend seems to have evolved whereby increasing number of individuals are opting for branded jewellery. The change in trend is driven by a number of factors such as brand consciousness, choice of designs, consciousness towards hallmarking and certifications of gold and diamond along with a growth in urbanization and increase in disposable income.

Indian gems & jewellery market is highly fragmented across the value chain with 96% of players operating in the unorganised sector, which are mostly family run labour intensive, and use indigenous technology. MSME's are forming major constituents of the unorganised Gems and Jewellery market of India. 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 4-5 per cent market share. As India's jewellery market matures, it is expected to get more organised.

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In order to tap the tier 1 and tier 2 markets, organised retailers are expanding their reach and adopting product portfolio in order to suit local needs. Nonetheless, the traditional players continue to co-exist with the branded players; a trend which is more common with international markets where the independent jewellers still hold significant share of the market.

## India's Position on the Global Front

Indian gems & jewellery industry is the leading foreign exchange earner, as well as one of the fastest growing industries in the country. The market for gems and jewellery worldwide has grown steadily over the last few years but slowed down during the global economic recession in 2011-2012.

Globally, jewellery demand was up 37% in the quarter ending September 2013 (Q2 2013) to 576 tonnes (t) from 421t in the same quarter last year, reaching its highest level since Q3 2008. In China, demand was up 54% compared to a year ago; while in India demand increased by 51%. There were also significant increases in demand for gold jewellery in other parts of the world: the Middle East region was up by 33%, and in Turkey, demand grew by 38%.

Regionally, Asia Pacific holds the largest jewellery market in the world with more than half of the share being contributed by India and China alone. India and China are also the two largest gold consumers in the world followed by the Middle Eastern region. Other countries in Asia Pacific such as Thailand and Vietnam are also large consumers of gold and thereby driving the regional growth of the market. India and China together account for almost 60% of jewellery demand and around 50% of total bar and coin demand of the world.

Figure1. Jewellery Demand in Tonnes

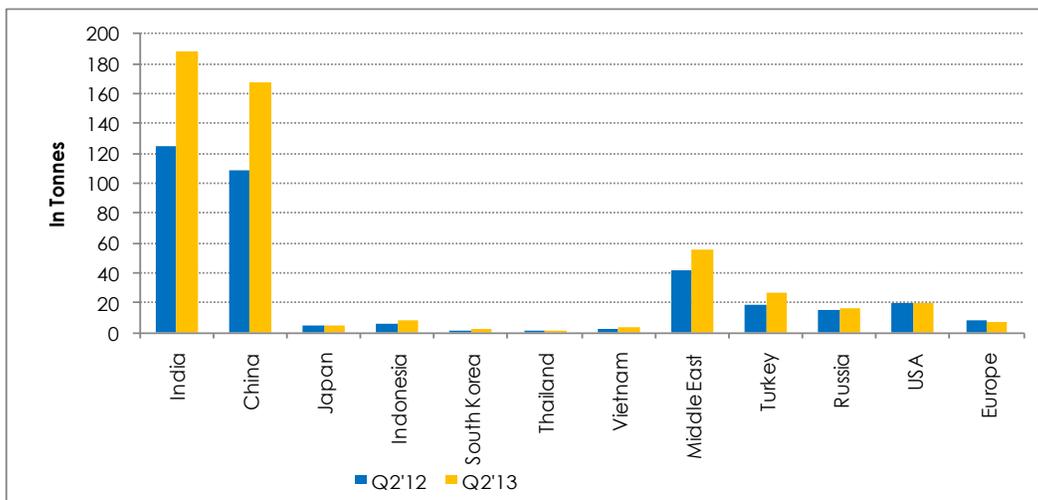
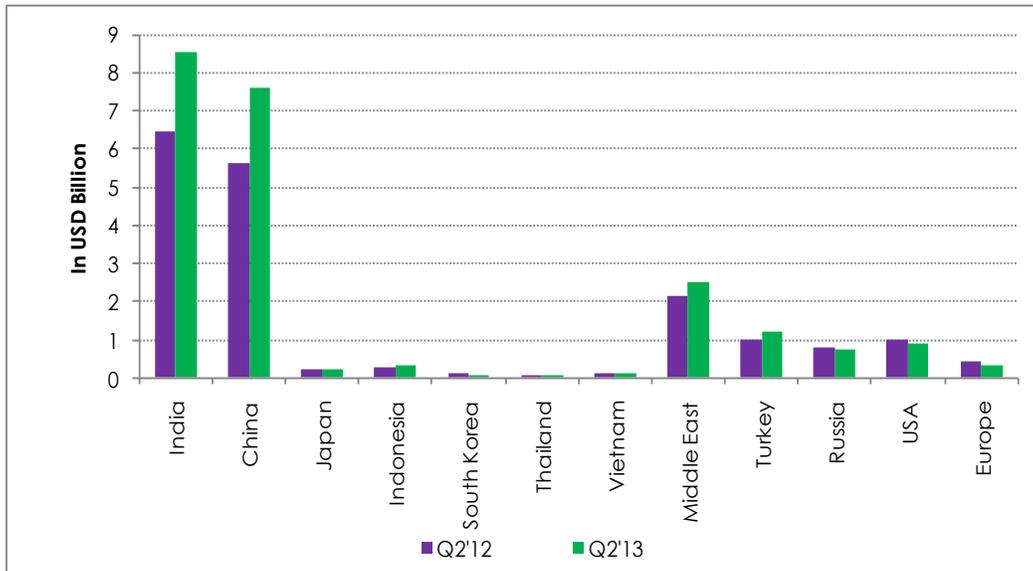


Figure2. Jewellery Demand in Value



Although retail sales of diamond jewellery slowed in the key consumption regions of China and India, the overall retail market continued its growth in 2012, extending its recovery from the financial crisis.

While a predominant portion of gold jewellery manufactured in India is for domestic consumption, a significant portion of rough, uncut diamonds processed in the form of either polished diamonds or finished diamond jewellery is exported.

The diamond market's skyrocketing growth in the key developing markets of China and India moderated in 2013 amid economic slowdown. Due to continuing economic uncertainty, diamond sales in Europe suffered. However, the USA and Japan registered a growth in sales.

With its cut and polished diamonds, colored gemstones, gold jewellery, pearls, non-gold jewellery and fashion jewellery, India accounts for almost 50% of the supply in international market. The Gems and Jewellery industry of India contributes nearly 55% of the world's net exports of cut and polished diamonds in value, 90% in terms of pieces and 80% in terms of carats. Every 11 of 12 diamonds sold around the globe are processed in India, irrespective of where these are mined.

## Export and Import Trend

The global market for Gems and Jewellery today is over USD100 billion with jewellery manufacturing dominated by a handful of countries like India, Italy, China, Thailand and the USA. It is one of the fastest growing industries accounting for 14.57% of the India's total merchandise exports during the financial year 2012-13.

**Table 1: Export of Gems and Jewellery**

Year	Export of Gems & Jewellery (USD Billion)	% Share of Gems & Jewellery in India's total Export	Gold (USD Billion)	Diamond (USD Billion)
2008-09	24.49	15.36	8.61	14.80
2009-10	28.41	16.34	9.42	17.54
2010-11	42.99	17.40	12.88	28.25
2011-12	42.83	15.45	16.78	23.31
2012-13	39.03	14.57	18.28	17.41

\*Source: Gems and Jewellery Export Promotion Council

\* Gems & Jewellery: Includes cut & polished diamonds, gold jewellery, medallions and coins, colored gemstones, pearls, non-gold jewellery and synthetic stones

\* Gold: gold jewellery, gold medallion & gold coins and bars

\* Diamond: cut & polished diamond

The India's export of gems & jewellery industry had been consistently growing till 2010-11; which was driven by increase in domestic demand as well as increase in the prices. However, it has moderated in the last two years i.e. 2011-2012 and 2012-2013 due to economic uncertainty, government regulations and fluctuation in the exchange rate. The imposition of 2% import duty on cut and polished diamond resulted in the decline of country's gems and jewellery exports.

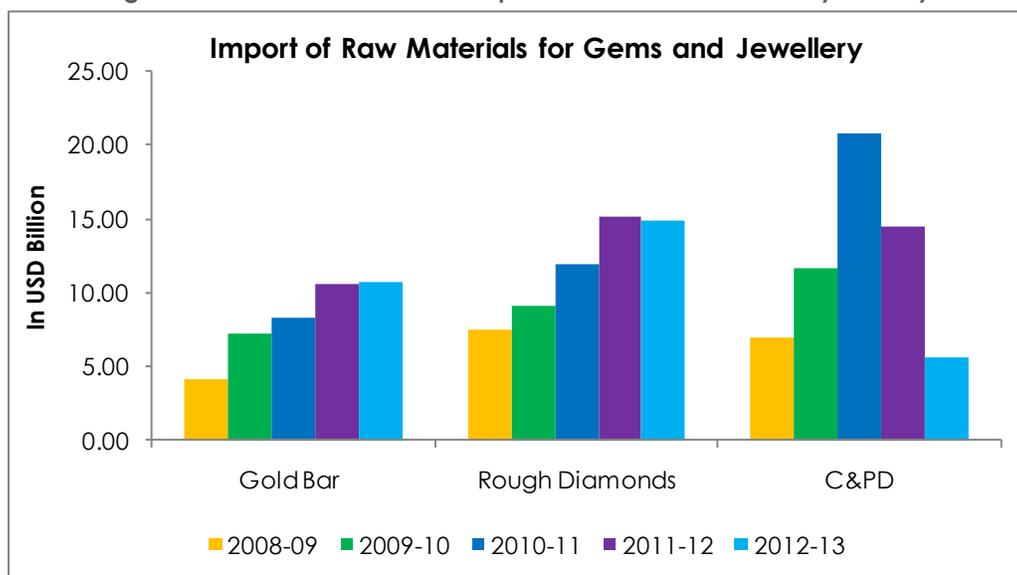
As is apparent from the Table 1, export of Gems and Jewellery has maintained a steady rate averaging over 15% to the national exports during the period under study. In most of the years, Gems and Jewellery exports have maintained a high growth rate. But in spite of such a high growth rate, the export of Gems and Jewellery as a percentage to national total has remained more or less the same.

Table 2: Import of Raw Materials for Gems and Jewellery

Year	Import of Raw Materials for Gems & Jewellery (USD Billion)	Gold Bar (USD Billion)	Diamond (USD Billion)	
			Rough Diamonds	C&PD
2008-09	19.54	4.06	7.53	6.97
2009-10	28.53	7.17	9.05	11.61
2010-11	41.93	8.28	11.93	20.77
2011-12	42.26	10.51	15.15	14.47
2012-13	36.90	10.73	14.89	5.58

\*Source: Gems and Jewellery Export Promotion Council

Figure3. Trend of Raw Materials Imports for Gems and Jewellery Industry

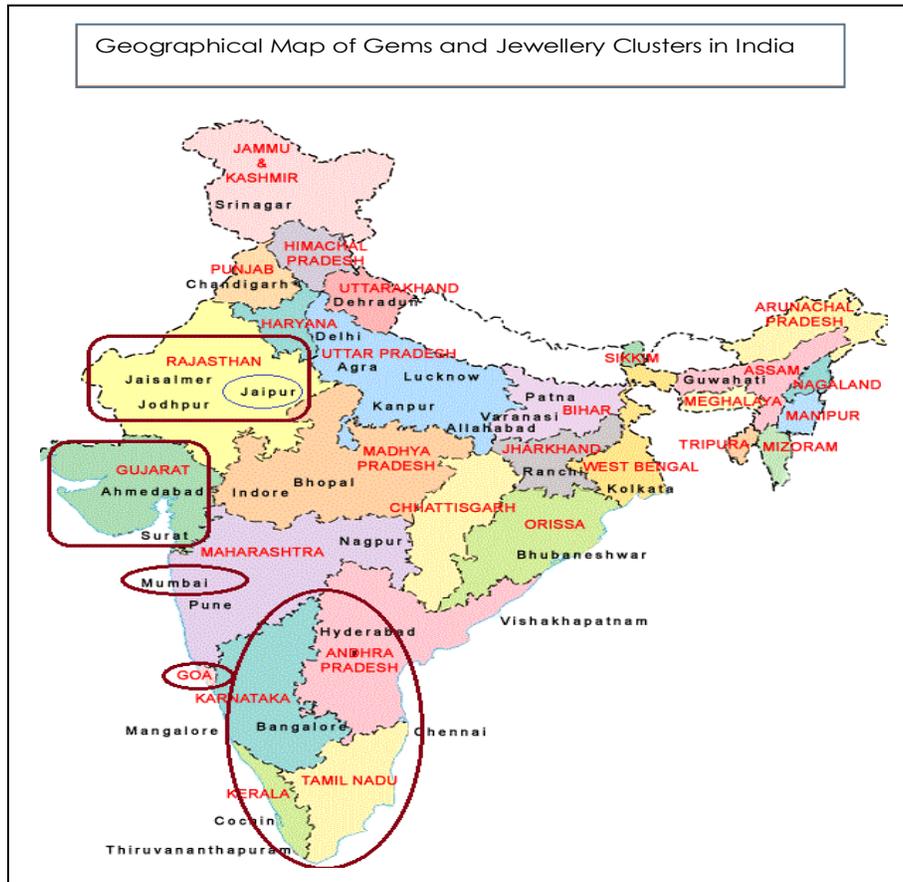


From the above graph it can be interpreted that till 2010-11, India was major importer of cut and polished diamond (C&PD) which evolved in the 2011-12 with India becoming major importer of rough diamonds.

However, after the imposition of the duty, imports of cut and polished diamonds dipped 70%. This sharp reduction and the subsequent low imports of cut and polished diamonds in the succeeding days till the end of the fiscal year also helped bring down imports of cut and polished diamonds for the whole year by 30%.

## Geographical clusters of Gems and Jewellery Industry

The hub of India's jewellery industry is Mumbai that receives the majority of the country's gold and rough diamond imports. Mumbai has a considerable number of modern, semi-automatic factories and laser-cutting units, the majority of which are located in the special economic zone(s). Most of the diamond processing, is undertaken in Gujarat, (primarily in Surat, Bhavnagar, Ahmedabad and Bhuj) and in Rajasthan (Jaipur) with Gujarat contributing to 80% of the total diamonds processed in India.



- **Jaipur** in Rajasthan is a key centre for polishing precious and semi-precious gemstones both natural and synthetic, carving, bead-making, stringing, manufacture of art objects.
- **Surat** in Gujarat is the world's major diamond processing center.
- **Mumbai** in Maharashtra is the centre for machine made jewellery. The city is also India's largest wholesale market in terms of volume.
- **Delhi** and its neighbouring states are famous for manufacturing silver jewellery and articles.

- **Kolkata** in West Bengal is popular for its lightweight plain gold jewellery. This category of jewellery finds a large market in Tamil Nadu.
- **Hyderabad** in Andhra Pradesh is the centre for precious and semi-precious studded jewellery.
- **Nellore** in Andhra Pradesh is a source for handmade jewellery that has been supplying the Chennai market for quite a few decades.
- **Belgaum** in Karnataka and Nellore together, specialise in studded jewellery using synthetic or imitation stones.
- **Coimbatore** in Tamil Nadu specialises in casting jewellery.
- **Trichur** in Kerala is another source for lightweight gold jewellery and diamond cutting.

## Challenges Faced by the Industry

### Dependence on Import

The gems and jewellery industry is highly dependent on import for meeting its raw material requirements and among the imported commodities rough diamonds account for almost 50% of the imports. India is also one of the largest importer and consumer of silver in the world.

### Lack of Financial Support

The industry is also facing problems in terms of financial assistance from the banks, which is evident in the below table which highlights the gross credit deployment to the industry:

Year	Credit Deployment towards Industry ( ₹ billion)	Credit deployment towards Gems and Jewellery ( ₹ billion)	% share of gems and jewellery in total credit deployment
2009	10544.00	285.00	2.70
2010	13115.00	318.00	2.42
2011	16046.00	397.00	2.47
2012	19374.00	513.00	2.65
2013	22302.00	611.00	2.74

\*Source: Reserve Bank of India

The gross credit deployment towards the gems & jewellery industry has been increasing in value terms; but still it is less than 3.00% during the last five years and stood at around 2.74% of the total credit deployment towards industry in 2013.

As the market is mainly constituted by small players, banks & financial institutions hesitate to provide them assistance or they ask for personal collaterals along with high rate of interest, which in turn jeopardizes the financial health and growth prospects of the entity and its owners.

### Fluctuations in Exchange Rate

Gems and Jewellery industry is influenced by the rupee/dollar exchange rate because it is export & import oriented industry. Any variation in the exchange rates affects the margins of the players.

**Changing Consumer Preference:** Global marketing requires keeping pace with changing fashion of Gems and Jewellery particularly in the context of very high prices of diamond, gold and silver. India is not having enough design development centers to provide feedback and to innovate latest designs to catch up with fashion needs of the foreign buyers. Manufacturers craft specific type of gems and jewellery products according to the market demand. But due to change of fashion, demand of that type of products starts decreasing and eventually it finishes. This situation blocks the manufacturer's capital and leads to inventory pile up.

**Competition Threat:** Presently India is the dominant player as a processing hub for diamond, but she faces future threats in terms of competition from various countries; one of them is China, due to cheap economic labour, infrastructure and a welcoming government. Technology is another aspect where the Indian gems and jewellery industry faces a major threat from China. Apart from China, Israel and Belgium are also emerging as diamond processing centers; these countries are technologically more sound and efficient than India. The diamond producing nations are also building infrastructure for diamond processing to gain economic advantages.

## Demand Drivers of the Industry

### Important Savings and Investment Tool

The household savings have shown a continuous rise as depicted in the table below, the spending power of consumers is increasing, although the pace of growth has slowed down over the last few years due to high inflation affecting the consumer.

Year	Household Saving (₹ Billion)	% YoY growth in Household Saving
2008-09	13308.73	19.00
2009-10	16307.99	22.54
2010-11	18329.01	12.39
2011-12	20037.20	9.32

\*Source: Reserve Bank of India

If we see the population composition, this is also reflecting the favorable scenario in terms of spending. India's affluent & rich is continuously increasing and India's young & earning population is one of the highest across the globe, who demands greater transparency and better service. At the same time they are also willing to pay justified premium for the right proposition and design. This would position jewellery as a lifestyle product.

The spending by foreign consumer has also shown improvement in particular, US economy is improving along with the country's employment scenario leading to increasing disposable income with the consumers.

The gems & jewellery, in particular gold's increasing attractiveness as an investment option has also acted as a catalyst in the recent times. Consumers are increasingly parking their surplus funds in gold, as other sectors like real estate and financial market were not able to generate consistent returns.

### Penetration of the Organised Players

It is estimated that in the coming years, growth in the industry would be highly contributed with the development of the large retailers/brands. The leading brands are pulling the organised market and are opening opportunities to grow. 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. However, the phenomenon is more prevalent in the tier-1 and tier-2 cities.

### Government Initiatives/ Policy Support

The government has taken significant steps for increasing the gems & jewellery exports in terms of duties and taxes, infrastructure (SEZ, EPZ's) etc. The Government of India (GoI) plans to promote the Gems and Jewellery industry in a big way through its New Foreign Trade Policy (2009-2014). Some of the important components of the policy are discussed below:

- The number of days for re-import of unsold items in the case of participation in an exhibition in the US has been increased to 90 days
- Duty incidence on gold jewellery exports has been neutralised while duty drawback on such exports is now allowed
- Duty free re-import entitlement for rejected jewellery shall be 2 per cent of free on board (FOB) value of exports
- The value limit of personal carriage has been increased from USD 0.002 billion to USD 0.005 billion in case of participation in overseas exhibitions. The limit in case of personal carriage as samples for export promotion tours has also been increased from USD 0.0001 billion to USD 0.001 billion
- The Government of India has allowed 100 per cent foreign direct investment (FDI) in gems and jewellery industry through the automatic route
- In order to encourage more investments in the sector, gems and jewellery SEZs have been set up of four are operational in Maharashtra, West Bengal, Rajasthan and Andhra Pradesh. Further, formal approval has been given to 13 SEZs in the sector — three have got in-principal approval and seven have been notified, as per the SEZ Board of Approval statistics

## ONICRA'S Outlook on SMEs in India

The Gems and Jewellery industry in India, like other MSME industries, is a highly fragmented industry. This characteristic of the gems & jewellery industry leads to a high share of the unorganised sector as compared to the organised sector. The components of jewellery include not only traditional gold but also a variety of diamond and platinum. The industry also trades in various varieties of precious and semi-precious stones.

The gems and jewellery industry portrays an opportunity for MSMEs in India. Presently the unorganised players use indigenous technology with little opportunities for the growth and ability to compete in the global market.

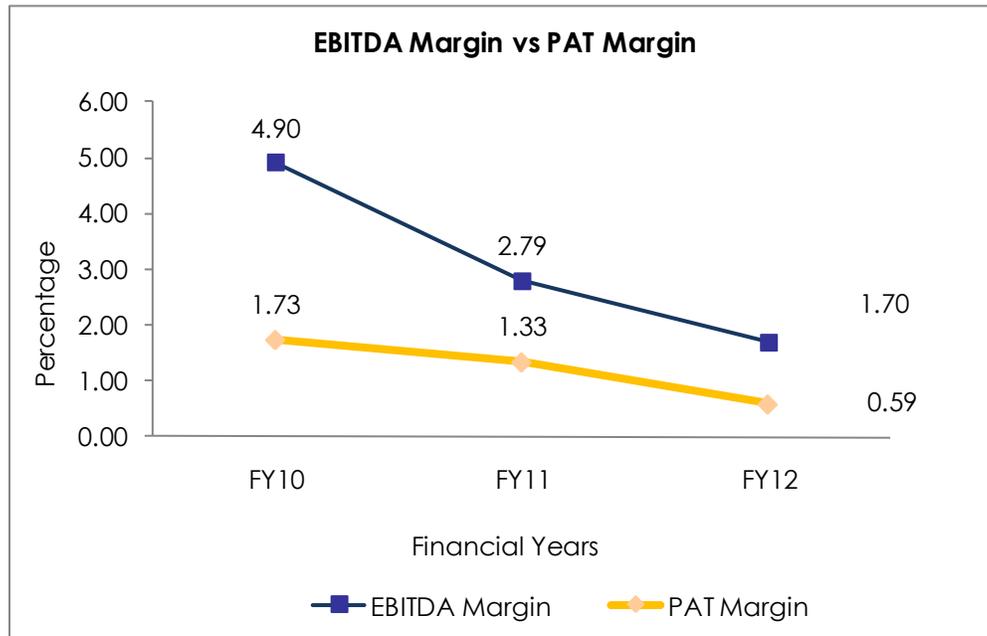
With the improvement in the method of production, use of better technology and synergized representation of the unorganised players in global market can help them to grow and contribute to the economy.

### Financial Highlights

A sample data of 30 companies across India was chosen from the entities that have been rated by Onicra during the period January 2013 to September 2013 as a representative of the SME units. These entities are involved in manufacturing and trading of jewellery and have a turnover slab of more than ₹0.02billion.

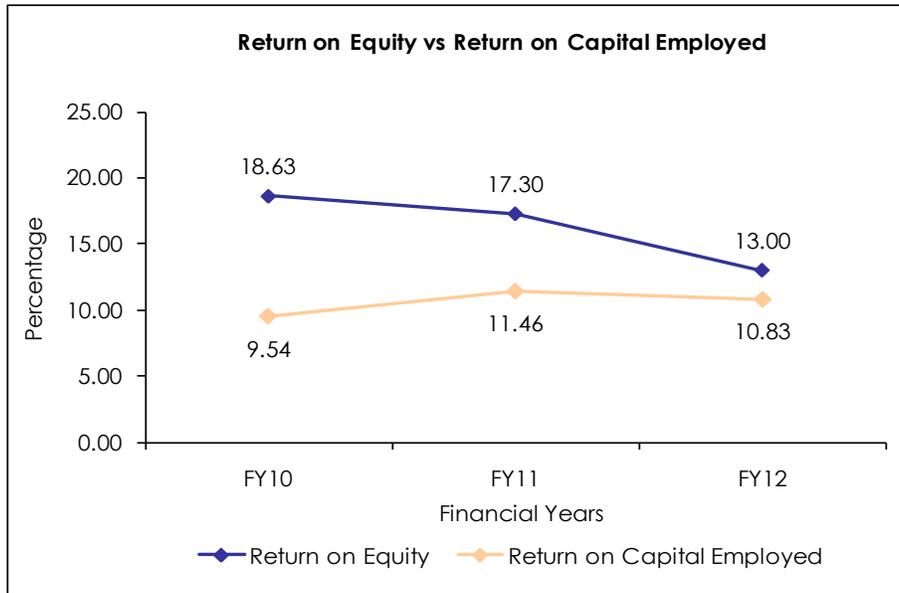
## Profitability Position

The profitability position of the sample has been declining over the years under study, owing to increasing raw material prices of raw gold, rough gems and diamonds and declining profit margins.



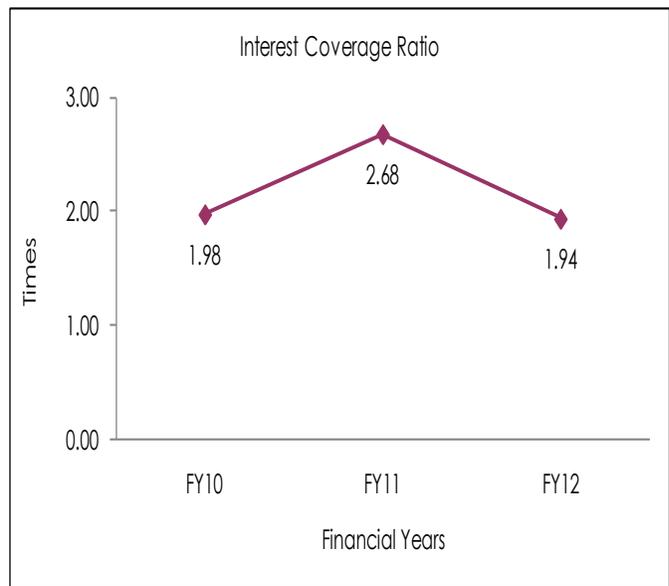
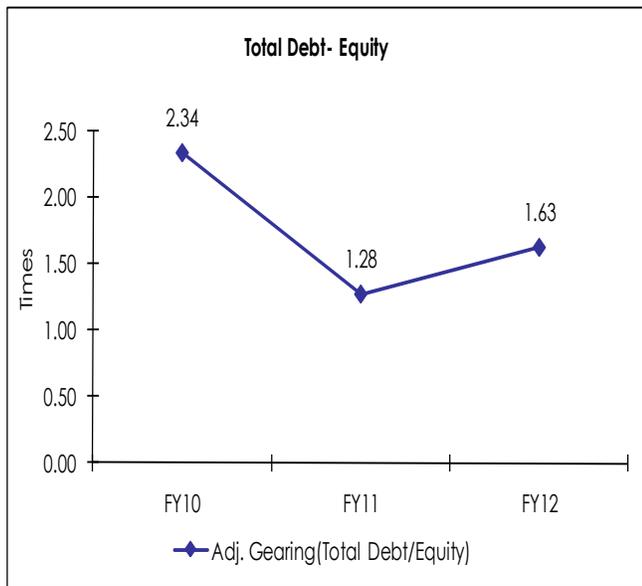
The revenue of the sample has shown an increasing trend, but the operating profit (EBITDA Margin) has been under pressure as the purchases constitute the major proportion of cost of production. The rise in raw material prices had a spiral effect that further aggravated the situation in terms of profitability position of the sample. The increase in prices of raw material has compelled the consumers to shy away from stores and jewellers are finding it hard to clear their stocks. To make up for this, jewellers are offering incentives to the buyers in terms of rebate on making charges, gifts, etc. All these moves are further eating up the margins of the jewellers. The interest expenses are putting further pressure on the PAT margin of the sample.

Returns



With the margins being under pressures, the jewellers were unable to generate good returns; the return on capital employed has declined and return on equity of the sample has remained almost flat over the last three financial years ending 2011-12.

Leverage



The sample entities were not highly leveraged in the last two years under study, as reflected by the adjusted gearing of the sample, which was within the comfortable range of 2 times. The total debt funds comprised of a mix of all three elements i.e. secured long term, working capital loans and the unsecured loans. Unsecured loan was also the major factor that affected the overall gearing position of the sample, as the majority of the entities were family controlled.

The gearing was not too high in the last two years ended 2011-12, but the entities do not have sufficient buffer for the payment of interest expenses, depicted in interest coverage ratio of the sample. The ratio was mainly affected by the low profitability of the sample.

## Outlook

It can be said that the prospects of Indian gems and jewellery market is quite promising with increasing focus of the world towards quality of gems and jewellery products and better purchasing power of the people in India. The industry derives its strength from supportive government policies, availability of labour and strong demand from the domestic market. However due to highly unorganised structure and immense competition among the players the margins earned by the players are less. India is one of the leading players in the Gems and Jewellery market but in order to maintain herself as a dominant player, she needs to adapt to the changing lifestyles and expenditure pattern through better quality products and adopting modern technology.

Over the long term, gold jewellery demand is likely to witness consistent growth driven by evolving lifestyle, anticipated recovery in economic conditions and expected improvement in demand from tier 2 and tier 3 cities and rural markets which account for a major chunk of the demand.

## Reference

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[http://www.gjepc.org/statistics\\_import.php](http://www.gjepc.org/statistics_import.php)

<http://www.gold.org/>

<http://www.rbi.org.in/home.aspx>

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