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STUDY

**OUTLOOK FOR INDIAN
GEMS AND JEWELRY
SECTOR: 2009**

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INTRODUCTION

The Indian Gems and Jewellery (GJ) sector is going through rough patches since 2008 with more than 100,000 skilled and unskilled labourer being laid-off due to poor demand from the US market as it is reeling under the current global economic downturn. Exports to the largest market -the US declined by over 25 per cent in 2008 (January-December). Simultaneously, plunge in domestic jewellery demand added to the sectors woos, as raw material cost jumped, inflation stabilized, gold prices are touching high records and people are left with low disposable income to purchase the luxury good.

To support the GJ industry, Government has been announcing initiatives for the growth of the export driven sector.

GOVERNMENT INITIATIVES FOR GEMS AND JEWELLERY SECTOR

Major measures undertaken by the government for Gems and Jewellery sector **(in 2007) include:**

- Reducing the value addition norms for gold and silver jewellery exports from 7 per cent to 4.5 per cent
- Allowing 100 per cent FDI in the gems and jewellery sector through the automatic route
- Abolishing duty on polished diamonds in May 2007.
- Setting up Gems and Jewellery Parks and SEZs to promote sectoral investments.

Fiscal Stimulus Package (as on December 2008)

Some of the measures announced in the stimulus package for the benefit the gems and jewellery sector include:

- Increasing the Post Shipment Rupee Export Credit Period from 90 days to 180 days with effect from November 28, 2008.
- Increasing the Pre-shipment Rupee Export Credit Period from 180 days to 270 days with effect from November 15, 2008.
- Providing an interest subvention of 2 percent up to March 31, 2009 subject to minimum rate of interest of 7 percent per annum, to make pre and post-shipment export credit for labour intensive exports, such as gems & jewellery, more attractive.
- Allowing exporters to avail refund of service tax on foreign agent commissions of up to 10 percent of FOB value of exports. They will also be allowed refund of service tax on output services while availing of benefits under Duty Drawback Scheme.

- Extending the prescribed interest rate as applicable to Post Shipment rupee export credit period (not exceeding BPLR minus 2.5 percentage points) to overdue bills up to 180 days from the date of advance till further notice

Export facilitation measures by the Ministry of Commerce & Industry (as on 26th February 2009)

- Gems and Jewellery, diamonds and precious metals have been given a special boost by the the Ministry of Commerce & Industry, the Export Promotion Council for Gems and Jewellery and Star Trading Houses (in the Gems and Jewellery sector), besides Diamond India Limited, MSTC Limited and STCL Limited have now been added under the list of nominated agencies notified under para 4 A.4 of foreign trade policy for the purpose of import of precious metals.
- Surat in Gujarat, which is home to thousands of diamond units with lakhs of diamond workers, has been recognized as “Town of Export Excellence”.
- The authorized persons of Gems and Jewellery units in Export Oriented Units shall be allowed personal carriage of gold in primary form up to 10 kg. in a financial year subject to RBI and customs guidelines.

MARKET SIZE

The market size of the Indian Gems and Jewellery (GJ) sector is driven by the demand from domestic and international market. Exports based demand comprises a larger share for the Indian GJ sector with 80-90 per cent as compared to domestic demand in the range of 10-20 per cent.

According to ASSOCHAM, in the calendar year 2008, the domestic market size of GJ sector was USD 2,237.79 million and exports stood at USD 21,200.08 million.

However, the total market size of the Indian GJ sector is estimated to shrink by 3.9 per cent to USD 22.3 billion in 2009 (January-December) from USD 23.43 billion in the calendar year 2008, according to an Assocham Eco Pulse study.

Out of the total demand for Indian GJ in 2008 (January-December), 90.45 per cent was export driven and remaining 9.55 per cent came from domestic consumers. However, as per ASSOCHAM's estimates, in the calendar year 2009, the share of domestic demand will increase to 10.81 per cent in total demand for GJ and exports based demand will carve out a share of 89.19 per cent.

Demand from international players for Indian GJ will witness a slowdown in the current calendar year (2009), as:

❖ *Declining exports trend*

- There has been a loss of market due to overseas recession and global slowdown. In the international market, during the year 2007, the US and Hong Kong comprised a share of 49.67 per cent in the total exports of GJ from India, its share however, contracted to 35.23 per cent in 2008.

- The US alone was the biggest importer of Indian gems and jewellery till 2007, however, the current financial turmoil have led to a slowdown in the demand. In the calendar year 2007, the US share's in total gems and jewellery export from India was 25.93 per cent that slipped to 15.28 per cent in 2008.
- Since October 2008, exports of gem and jewellery products have been witnessing a sharp decline. The decline was reported to be 16 per cent, 34 per cent and 26 per cent in October, November and December 2008 respectively. However, in 2009, the trend was maintained as in the month of January and February it further dipped by 33.94 per cent and 34.57 per cent respectively.

❖ *Rising raw material cost*

- On one hand international orders are cancelled leading to piling up of raw material for gems and jewellery sector; on the other hand there is a pressure of high raw material cost.
- Total imports of basic raw materials by India for the gems and jewellery sector including gold bars, rough diamonds, colour gem stones, synthetic stones, silver bars and platinum have been registering sharp decline since October 2008. Raw material imports plunged by nearly 24.73 per cent in October 2008, continuing the trend of deceleration it reported a step fall of 54.19 per cent in February 2009.
- During the calendar year 2007, India imported gold bars mainly from Switzerland (USD 8788.6 million) and Australia (USD 2835.86 million). However, in 2008, global slowdown and weak demand have hit the direction and quantity of import with top importer being Switzerland (USD 7816.81 million) and at second place taken by UAE (USD 1964.53 million).

Import of gold bars by India from Switzerland registered a dip of 11.05 per cent in 2008.

- Similarly, the major importers of raw pearls, precious & semiprecious stones were Belgium (USD 3712.87 million) and UK (USD 1414.74 million) in 2007. However, in 2008, the major source for the raw material shifted towards Belgium (USD 1807.09 million) and Hong Kong (USD 852.04 million). Import of pearls, precious & semiprecious stones by India from Belgium plunged by 51.32 per cent in 2008.

❖ *Inflationary trend*

- Gold is considered as a natural hedge against inflation and a safer option in times of economic uncertainty which leads to its demand in the form of retail investments and Exchange Traded funds (ETF).
- In the year 2008, steps taken by monetary authorities have eased the inflationary pressures; thus in the calendar year 2009, near zero inflationary trend and northward moving gold price would loose the yellow metal's sheen as safe heaven especially among the middle class. Once gold prices go up it might lead to fall in consumption of gold which could hit its turnover.

❖ *Rational behaviour*

- Dwindling property prices, daily reports of thousands of job losses, decreasing disposable income with affluent and middle class population is forcing them to change their consumption pattern, thus spending by higher income consumers is particularly getting weak, hence preference of gold and diamond jewellery have been shifted to other luxury items even during festive seasons.

❖ *Rupee vs. Dollar*

- The Indian GJ manufacturers and exporters have been double hit since the end of 2008, as on one hand export demands are declining, on the other hand raw material has piled up.
- However, even if export orders have declined, in 2009, domestic demand would surge during festive and wedding seasons .To meet the demand import of raw material is required that is getting costly with rupee depreciating against dollar at Rs. 49 per dollar on an average.
- The rupee value against the dollar determines the cost of raw material imported for gems of jewellery as payments are made in the US currency. During the calendar year 2007, the value of rupee against dollar stood at Rs. 41.93 per dollar, with raw material payments by India worth at USD 16,780.61 million. However, in 2008 rupee depreciated against dollar and reached at Rs. 43.38 per dollar, with imports touching USD 20,143.35 million.
- In the current calendar year (2009), it has been observed that on an average rupee further depreciated against dollar at Rs. 49.40 per dollar that could aggravate the import cost of raw materials. However, if value of rupee against dollar is maintained at Rs. 49 per dollar in the 2009, without further depreciation, only then manufacturers will be able to carry on production and employment.

FINANCIAL PERFORMANCE OF GJ SEGMENT

In the Indian GJ segment there are few major players including Rajesh Exports Gitanjali Gems, Suhashish Diamonds, Su-Raj Diamonds, Viabhav Diamonds, Renaissance Jewellery and Tanishq. These players have been aggressively and extensively focusing on developing strong brands, large retail operations, strengthening their core manufacturing operations and building a strong international presence.

ASSOCHAM analyzed the financial performance of 10 major Indian companies engaged in the GJ industry, during Q2 FY'09 and Q3 FY'09. The Indian jewellery producers reported bleak performance from one quarter to another, with weak demand due to economic slowdown and the build up of retail inventories impacting realizations.

During the second quarter of FY 2008-09 (July-September), on an average the 10 major players in GJ segment have been witnessing pressure on their bottom and top lines. As financial crisis have penetrated in the segment reporting decline in demand and accounting losses coupled with rising raw material cost, that have further worsen in Q3 FY 2008-09 (October-December).

The 10 companies engaged in GJ sector, during Q2 FY'09 posted net sales worth Rs. 4,256.93 crore that dipped by 57.80 per cent in Q3 FY'09 totaling Rs. 1,796.60 crore. Similarly, during July-September 2008-09, net profits registered was Rs. 90.88 crore that reduced to Rs. 33.44 crore in Q3 FY'09, recording a plunge of 63.21 per cent.

Gems and Jewellery Industry

| Parameters | Q2 FY 2008-09 | Q3 FY 2008-09 | Growth rate |
|-------------------|---------------|---------------|-------------|
| | Rs. Crore | | in % |
| Net Sales | 4256.93 | 1796.60 | -57.80 |
| Net Profit | 90.88 | 33.44 | -63.21 |
| Interest cost | 54.93 | 54.03 | -1.63 |
| Raw material Cost | 3868.53 | 1627.61 | -57.93 |
| Wage Cost | 17.06 | 23.41 | 37.21 |

Source: Company Results, Assocham Research Bureau Analysis

In the manufacturing of GJ raw materials constitute around 90 per cent of production costs. However, production of raw material including gold and diamond is negligible by India; thus, the Indian GJ industry is heavily dependent on imported raw materials for production.

The raw material cost of the 10 companies in the GJ segment, during Q2 FY'09 was Rs. 3,868.53 crore that witnessed a sharp dip by 57.93 per cent in Q3 FY'09 with Rs. 1,627.61 crore.

During the calendar year 2007, imports of rough diamonds accounted for 57.11 per cent of India's total imports, however, in 2008, its share reduced to 46.78 per cent.

Followed by gold bars, as in 2007 it comprised a share of 13.84 per cent in the total import of raw material for GJ that contracted to 12.38 per cent in 2008 (January-December).

Pearls, precious and semi-precious stones accounted for 1.06 per cent share in India's total raw material imports for GJ, that further shrink to a meager 0.5 per cent in 2008.

OUTLOOK FOR GJ SECTOR: 2009

Gold:

In India, 85-90 per cent of demand for gold and gold jewellery is domestically driven and remaining 10-15 per cent is export-led.

In the domestic market, on an average for the calendar year 2007, standard gold prices stood at Rs. 9,368 per 10 gram that appreciated in the preceding calendar year by 30.87 per cent at Rs.12, 261 per 10 gram. It is further escalating, as in the month of March 2009, gold prices touched a new record of Rs. 15,000 per 10 gram.

Total import of gold by India during January-March 2009 was at 1.8 tonnes as compared to 61 tonnes in the same period a year ago, registering a dip of 97 per cent, due to absence of demand and high prices in the market.

Despite the fact that gifting gold jewellery at the time of marriage constitutes the major component of demand in India, however, in the current scenario with low disposable income and high gold prices, individuals can avoid additional expenditure on purchasing gold for the occasion. As Indian start accumulation of gold for the marriage purpose of a female child right after her birth.

Thus, if high prices persist during 2009, even festive and marriage seasons would not be able to boost demand for the yellow metal in the current situation of rising unemployment and few luxury consumers.

Diamond

In India, diamond is export-oriented and import-dependent industry. The demand for India diamond jewellery and cut-polished-diamonds (CPD) is mainly dictated by western countries, especially the US, as it is the major importer.

The weak global GDP growth would result in low demand for diamond jewellery across the globe.

One time, bulk buyers including the US and the European Union are witnessing financial pressures, thus buying Indian diamond studded jewellery is not seen lucrative.

There are major challenges waiting ahead for the Indian GJ sector in the calendar year 2009, according to Assocham Eco Pulse (AEP) study, as:

- In the first three month of the calendar year 2009, gold imports by India have dipped by 97 per cent as compared to 2008.
- Major demand for gold and diamond in the domestic market has declined with rising prices, low disposable income and stable inflationary trend.
- However, domestic demand can boost by July- August 2009 with good monsoons and gold prices moving southwards as in the previous months there was lack of buying and low confidence in yellow metal.
- The international demand for GJ is mainly exports driven, to attract global consumers, the economies of the major importers like the US, European Union, Japan should grow at healthy rate, with rising employment rate and high disposable income to purchase the luxury good.
- In the current calendar year (2009), it has been observed that on an average rupee further depreciated against dollar at Rs. 49.40 per dollar that could aggravate the import cost of raw materials. However, if value of rupee against dollar is maintained at Rs. 49 per dollar in the 2009, without further depreciation, only then manufacturers will be able to carry on production as raw material cost would not act as a burden.

- ASSOCHAM estimates that in the calendar year 2009, the domestic demand for Indian GJ would worth USD 2431.75 million as compared to USD 2237.79 million during January-December 2008. Similarly, exports of GJ account for USD 20069.71 million in 2009 as compared to 21200.08 in 2008.
- ASSOCHAM further estimates that in the calendar year 2009, the share of domestic demand will increase to 10.81 per cent as compared to 9.55 per cent in 2008 in total demand for GJ and exports based demand will carve out a share of 89.19 per cent in comparison to 90.45 per cent in 2008.
- ASSOCHAM have analyzed the fourth quarter financial performance (2008-09) of 10 major Indian companies engaged in the GJ industry.
- As per Assocham Research Bureau analysis, on an aggregate basis the 10 India companies engaged in GJ sector, shall witness a decline of 63 per cent in their net sales during Q4 FY'09 with Rs. 663 crore as compared to Rs. 1796.60 crore in Q3 FY'09.
- Similarly on an aggregate basis, net profits of the 10 companies would worth Rs. 24 crore in Q4 FY'09 as compared to Rs. 33.34 crore in Q3 FY'09, registering a dip of 28 per cent.
- Raw material cost will account for Rs. 615 crore in the fourth quarter of the financial year 2008-09, recording a plunge of 62 per cent from Rs. 1627.61 crore in Q3 FY'09.

ANNEXURE I

Gems and Jewellery Export Items for India (2007 vs 2008)

| Gems and Jewellery Export Items | Jan-Dec | | Share in % | | Growth rate in % |
|------------------------------------|----------------|----------------|---------------|---------------|------------------------|
| | 2007 | 2008 | 2007 | 2008 | |
| | USD Million | | | | |
| Cut & polished diamonds (bonded) | 990.34 | 261.6 | 5.02 | 1.23 | -73.58 |
| Gold Jewellery | 5444.03 | 5398.93 | 27.58 | 25.47 | -0.83 |
| Coloured Gemstones | 267.91 | 295.8 | 1.36 | 1.40 | 10.41 |
| Pearls | 3.44 | 4.01 | 0.02 | 0.02 | 16.57 |
| Non-Gold Jewellery | 215.8 | 212.38 | 1.09 | 1.00 | -1.58 |
| Synthetic Stones | 0.99 | 1.11 | 0.01 | 0.01 | 12.12 |
| Grand Total | 19737.8 | 21200.1 | 100.00 | 100.00 | 7.41 |

Source: Gems and Jewellery Export Promotion Council (GJEPC)

Raw material Import Items for Gems and Jewellery (2007 vs 2008): India

| Gems and Jewellery Import Items | Jan-Dec | | Share in % | | Growth rate in % |
|------------------------------------|-----------------|----------------|---------------|---------------|------------------------|
| | 2007 | 2008 | 2007 | 2008 | |
| | USD Million | | | | |
| Rough diamonds (total) | 9582.69 | 9423.06 | 57.11 | 46.78 | -1.67 |
| Rough coloured gemstones | 156.25 | 98.23 | 0.93 | 0.49 | -37.13 |
| Raw pearls | 10.11 | 7.15 | 0.06 | 0.04 | -29.28 |
| Rough synthetic stones | 11.39 | 5.33 | 0.07 | 0.03 | -53.20 |
| Gold Bar | 2322.14 | 2494.31 | 13.84 | 12.38 | 7.41 |
| Silver Bar | 20.14 | 23.06 | 0.12 | 0.11 | 14.50 |
| Gold Jewellery | 398.01 | 325.85 | 2.37 | 1.62 | -18.13 |
| Non-Gold Jewellery | 8.51 | 32.39 | 0.05 | 0.16 | 280.61 |
| GRAND TOTAL | 16780.61 | 20143.4 | 100.00 | 100.00 | 20.04 |

Source: Gems and Jewellery Export Promotion Council (GJEPC)

Import destination of raw material for India

| Raw material-Pearls precious & semiprecious stones | | | |
|--|------------------|---------------------|------------------|
| 2008(Jan-December) | | 2007(Jan-December) | |
| Exporting Countries | (in USD Million) | Exporting Countries | (in USD Million) |
| Belgium | 1807.191 | Belgium | 3712.87 |
| Hong Kong | 852.042 | UK | 1414.74 |
| UAE | 765.363 | UAE | 1168.62 |
| UK | 519.605 | Hong Kong | 1113.78 |
| USA | 323.874 | Israel | 545.18 |
| Israel | 308.386 | USA | 359.17 |
| Russia | 70.827 | Russia | 60.87 |
| Thailand | 42.608 | Thailand | 52.82 |
| South Africa | 27.099 | Zambia | 28.46 |
| Zambia | 20.43 | South Africa | 27.47 |

Source: CMIE

Import destination of raw material for India

| Raw material-Gold | | | |
|---------------------|------------------|---------------------|------------------|
| 2008(Jan-December) | | 2007(Jan-December) | |
| Exporting Countries | (in USD Million) | Exporting Countries | (in USD Million) |
| Switzerland | 7816.81 | Switzerland | 8788.6 |
| UAE | 1964.53 | Australia | 2835.86 |
| South Africa | 1657.27 | UAE | 2306.65 |
| Australia | 1526.09 | South Africa | 1632.57 |
| USA | 226.96 | USA | 377.8 |
| Mexico | 36.71 | Saudi Arabia | 29.55 |
| Ukraine | 23.28 | Jamaica | 21.26 |

Source: CMIE

| TOP 10 EXPORT DESTINATION OF INDIAN GEMS AND JEWELLERY | | | | | |
|--|--------------|-------------------------------|-----------|--------------|-------------------------------|
| Country | Jan-Dec 2008 | Share in total exports (in %) | Country | Jan-Dec 2007 | Share in total exports (in %) |
| Hong Kong | 4230.82 | 19.96 | USA | 5117.75 | 25.93 |
| USA | 3239.05 | 15.28 | Hong Kong | 4681.02 | 23.72 |
| UAE | 3128.69 | 14.76 | UAE | 3853.73 | 19.52 |
| Belgium | 1698.37 | 8.01 | Belgium | 1817.16 | 9.21 |
| Israel | 803.55 | 3.79 | Israel | 1047.26 | 5.31 |
| Japan | 304.9 | 1.44 | Japan | 459.32 | 2.33 |
| Thailand | 292.21 | 1.38 | Thailand | 381.7 | 1.93 |
| UK | 201.74 | 0.95 | UK | 302.2 | 1.53 |
| Singapore | 183.84 | 0.87 | Singapore | 198.64 | 1.01 |
| Australia | 95.53 | 0.45 | Australia | 131.8 | 0.67 |

Source: CMIE

Note: Total exports of GJ was USD 21200.08 million in 2008 (Jan-Dec) by India

Total exports of GJ was USD 19737.8 million in 2007 (Jan-Dec) by India

| Share of GJ sector in total exports | | | |
|--|----------------|----------------|-----------------|
| Item | USD million | | |
| | 2007 (Jan-Dec) | 2008 (Jan-Dec) | 2009* (Jan-Dec) |
| GJ Exports | 19737.8 | 21200.08 | 20069.71 |
| Total exports | 147034.6 | 176707 | 188378 |
| Share of GJ sector in total exports (in %) | 13.42 | 12.00 | 10.65 |

Source: GJEPC, Assocham Research Bureau

Note: * ASSOCHAM Forecast

ANNEXURE II

Aggregate financial performance of 10 major Indian companies in GJ segment

| Parameters | Q2 FY | Q3 FY | Q4 FY* |
|-------------------|---------|---------|---------|
| | 2008-09 | 2008-09 | 2008-09 |
| Rs. Crore | | | |
| Net Sales | 4256.93 | 1796.6 | 663 |
| Net Profit | 90.88 | 33.44 | 24 |
| Raw material Cost | 3868.53 | 1627.61 | 615 |
| Interest cost | 54.93 | 54.03 | 53 |

Source: Company results, Assocham Research Bureau

Note: * ASSOCHAM Forecast

The 10 major players in Indian Gems and Jewellery Segment

| S.No. | Company Name |
|-------|---------------------------------------|
| 1 | Flawless Diamond (India) Limited |
| 2 | Gitanjali Gems Limited |
| 3 | Golkunda Diamonds & Jewellery Limited |
| 4 | Rajesh Exports Limited |
| 5 | Shentivijay Jewels Limited. |
| 6 | Shrenuj & Company Limited |
| 7 | Shyam Star Gems Limited |
| 8 | Su-Raj Diamonds and Jewellery Limited |
| 9 | Vaibhav Gems Limited |
| 10 | White Diamond Industries Limited |

Note: Companies analyzed by ARB for the financial performance of the GJ sector