

A close-up photograph of a jeweler's workbench. A blue and orange flame from a torch is directed at a small metal ring resting on a porous, rectangular work block. The background is blurred, showing various tools and containers. A yellow diagonal banner is overlaid on the right side of the image.

SECTOR RESEARCH

GEMS & JEWELLERY

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Indian Gems and Jewellery Industry to Glow More in FY23

Sector Analysis

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Executive Summary

Brickwork Ratings (BWR) expects gold sales in the domestic market to witness 10%-12% growth in FY23 owing to an increase in consumers' purchasing power, festivities during the year and pent-up demand from postponed weddings. With gold demand crossing the pre-pandemic level in FY22 and improving further, BWR expects gold prices to increase by 8%-10% in FY23 on account of high inflation rates due to the growing geopolitical tension. Since FY19, the industry has been volatile due to the economic slowdown and pandemic-led restrictions. The industry witnessed an increase in demand with restrictions being eased after each pandemic wave receding. Overall demand for gold in terms of volume decreased during the FY20 to FY21 period in the domestic market as the inflation rate and interest rate pushed gold prices upwards, which in turn helped retailers sustain their overall revenue.

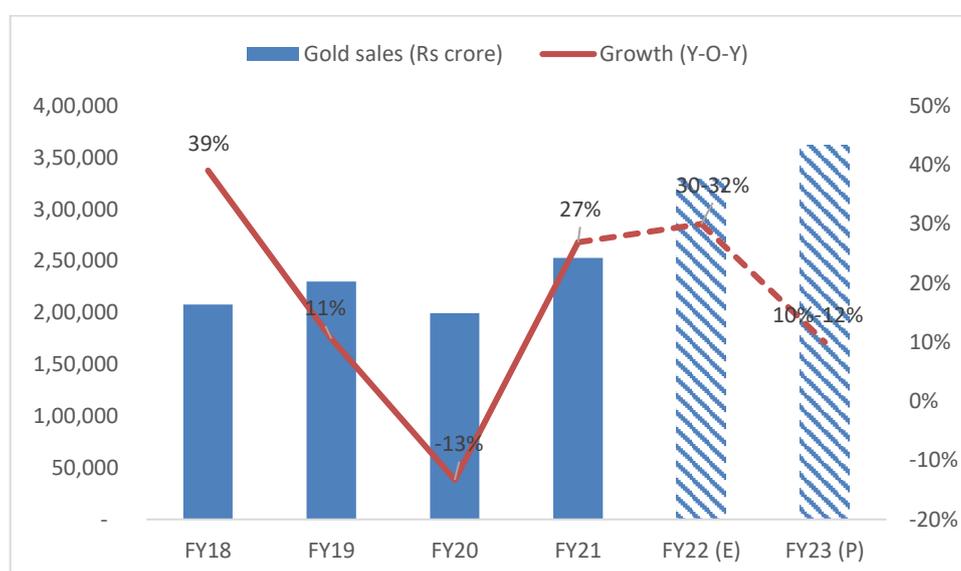
In Q4FY22, the Ukraine-Russia war created a challenging situation for the Gems and Jewellery (G&J) industry, especially in the diamond segment, as Russia is the largest source of imports for rough diamonds for Indian jewellery manufacturers. However, currently, Russia being isolated by western countries has created new opportunities for Indian jewellery exports in the Russian market.

BWR expects the industry to benefit from the Comprehensive Economic Partnership Agreement (CEPA) between India and UAE as the agreement would lessen supply-chain disruption by allowing manufacturers to import gold at cheaper rates from the UAE. In addition, it will create new opportunities for retailers in the international market. Furthermore, the exemption released by the government for hallmarking gold and jewellery would help improve exports in FY23. BWR expects that similar to FY22, the US and China will create steady demand in the international market, backed by various festivities across these markets during the year.

Domestic gold sales to increase by 10%-12%, backed by constant demand from wedding and festivity; growth moderated due to higher base

In the past couple of years, the Indian G&J market has been moving on an irregular path, with various factors such as the economic slowdown, pandemic and currently the Russia-Ukraine war in picture. In FY20, the economic slowdown and higher gold prices led to a decrease in consumers' purchasing power. The situation was worsened by the outbreak of the pandemic in Q4FY20, and the sector saw a major dip of 13% in its domestic demand.

Trend in domestic sales of Gold



E- Estimated, P-Projected

Source: CMIE, BWR Research

However, from Q2FY21, with the improvement in consumer sentiments and festive season period, demand started to increase and reached pre-pandemic levels till the country was hit by the second covid wave in Q4FY21. In FY22, BWR estimates demand for gold to have increased by 30-32% due to pent-up demand from weddings and festivals. The industry witnessed robust growth in demand for gold and other jewellery; the festival and wedding season has helped the industry to get back on track. Gold demand remained strong in October 2021, with festival purchases pertaining to Dussehra, Pushya Nakshatra and Dhanteras, among others, which helped retailers improve sales volumes and thereby reach pre-pandemic levels. In addition, pent-up demand from weddings increased owing to the easing of pandemic restrictions and also as the Omicron variant had limited impact on jewellery store operations.

The pent-up demand from postponed weddings and increase in disposable income could continue to drive the domestic demand in the future.

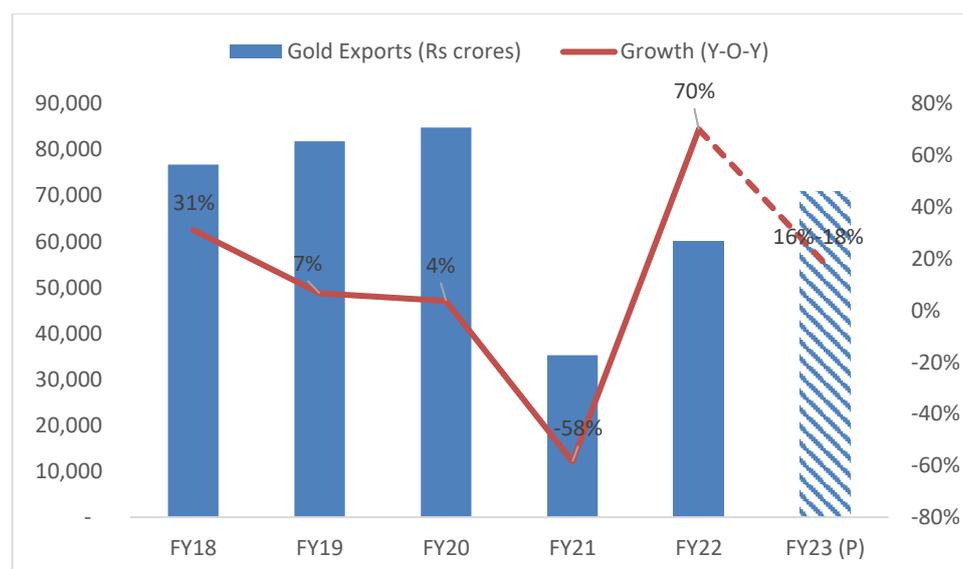
BWR expects the industry, especially the gold market, to witness steady growth of 10%-12% in FY23 with improved public sentiments and pent-up demand from festivities in Q1 that were postponed previously due to lockdown restrictions. Additionally, the rise in gold prices is expected to further support growth in players' revenues. However, BWR expects demand for diamonds to be muted in FY23 with a rise in the price of rough diamonds due to an increase in the logistic cost and geopolitical tension.

In FY23, the CEPA could be the major driving force for a significant rise in exports

The Indian G&J sector mainly exports products such as cut and polished diamonds, polished Lab-Grown Diamonds (LGD), studded and plain gold jewellery, silver and platinum jewellery and coloured gemstones. Akin to the domestic market, the export market also faced the heat of the pandemic in FY21, with gold export decreasing by 58% and diamonds by 10%. However the situation started to improve in FY22, backed by improved consumer sentiments, with exports witnessing positive growth. Overall, the US and China, accounting for 60% of the total exports, have shown robust growth, backed by the fact that festivals are being celebrated in these regions after 2 years. In H2FY22, the US had a robust increase in demand for gold due to a lack of other options for people to spend on as restrictions were levied on travelling and weddings were being postponed during the period. In addition to these factors, the Chinese New Year created demand for exporters. This allowed Indian gold exports to witness robust growth of 70% in FY22, backed by a low base and improved consumer sentiments.

The future of the Indian Gems and Jewellery industry exports looks promising with rise in demand from its top two export destinations, US and China and CEPA agreement with UAE.

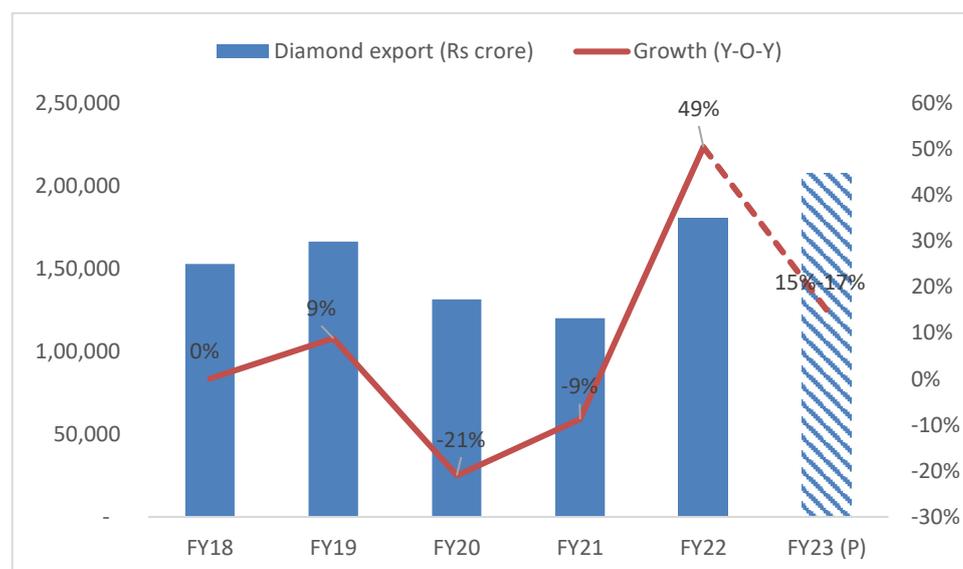
Trend in Exports of Gold



P-Projected

Source: Gem Jewellery Export Promotion Council (GJEPC), BWR Research

Trend in export of Diamond

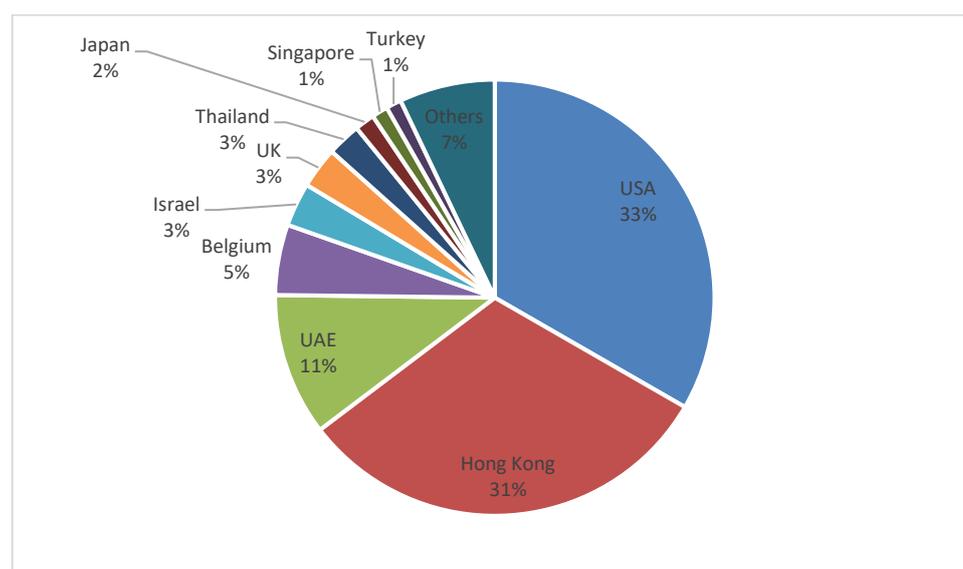


P-Projected

Source: Gem Jewellery Export Promotion Council (GJEPC), BWR Research

While demand has increased for gold, silver, platinum and diamond jewellery in the international market, the government has been creating policies that would help the industry run smoothly. The government has developed 10 special economic zones for the industry, which include 500+ manufacturing units accounting for 30% of the country's total exports. These would be based in Mumbai, Surat, Visakhapatnam, Kolkata, Delhi, Jaipur, Hyderabad, Chennai, Cochin and Noida. In addition, the CEPA will allow the UAE to import finished G&J from India at 0% duty instead of the present 5%. This agreement has created a huge opportunity for Indian G&J exporters.

Export destinations for India's Gems and Jewellery industry (FY22)



Source: CMIE, Gem Jewellery Export Promotion Council (GJEPC), BWR Research

BWR expects the export of gold and diamond to follow a similar trend and grow by 16%-18% and 15%-17%, respectively, in FY23 owing to festivities, weddings and an improvement in consumers' purchasing power, with economies reviving from the pandemic impact.

Geopolitical tension and economic pressure could further increase gold prices by 8%-10% in FY23

Under normal circumstances, the price of gold is influenced by various factors such as inflation, product purity, global movements, interest rates and import duties. However, during the past two years, the commodity market has been highly volatile due to disruptions caused by the pandemic. In addition, the Russia-Ukraine war has further inflated gold and diamond prices as during such times of uncertainty, investors tend to move towards safer investment avenues, which increases gold demand, thereby resulting in an increase in prices.

Trend in prices of gold



P-Projected

Source: CMIE, BWR Research

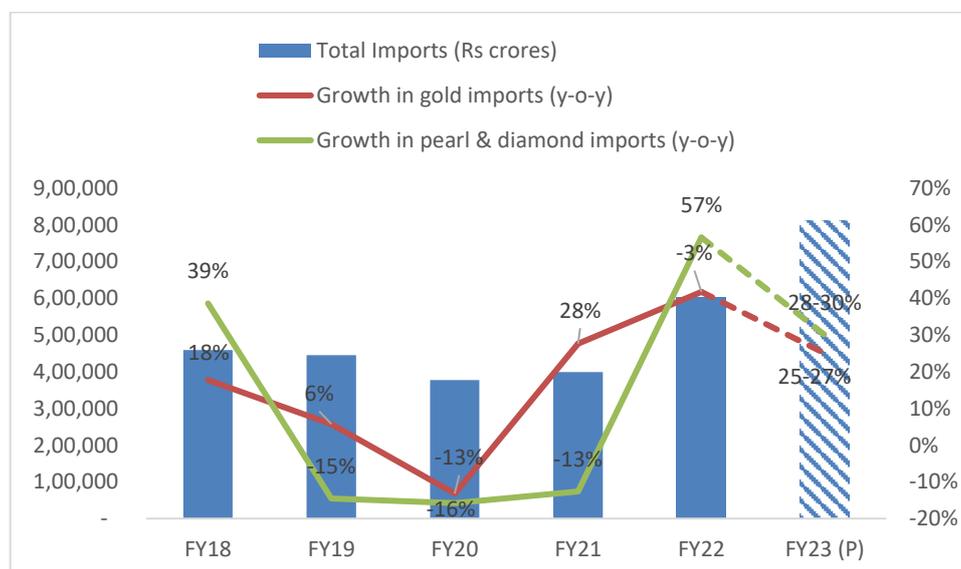
However, the government has been trying to boost the sale of gold, silver, platinum and palladium by reducing import duties, thereby lowering the prices of precious metals in the domestic market. BWR expects gold prices to increase by 8%-10% in FY23 on account of high inflation rates due to the growing geopolitical tension.

The domestic price of gold could increase due to escalated demand from the domestic and international market.

With countries easing their pandemic restrictions, supply-chain issues could be resolved, increasing imports by 25%-27% in FY23

India imports rough diamonds, rough LGD, rough coloured gemstones and synthetic stone, raw pearls, gold, silver and platinum bars, which are then converted into finished jewellery in order to be exported. In FY21, the imports decreased due to a decrease in demand and pandemic restrictions leading to supply-chain disruption. However, in FY22, with the increase in demand, the imports of rough diamonds, rough LGD and silver bars have exceeded the pre-pandemic levels. In addition, imports have increased by 3% in the 9MFY22 period in comparison to the corresponding period of FY19. In addition, the CEPA would not only be beneficial for the export, but also allow India to import raw material from the UAE at reduced prices. India would be allowed to import gold from the UAE at 1% less duty compared to that charged from other countries.

Trend in import of Gold, Pearls and Diamonds



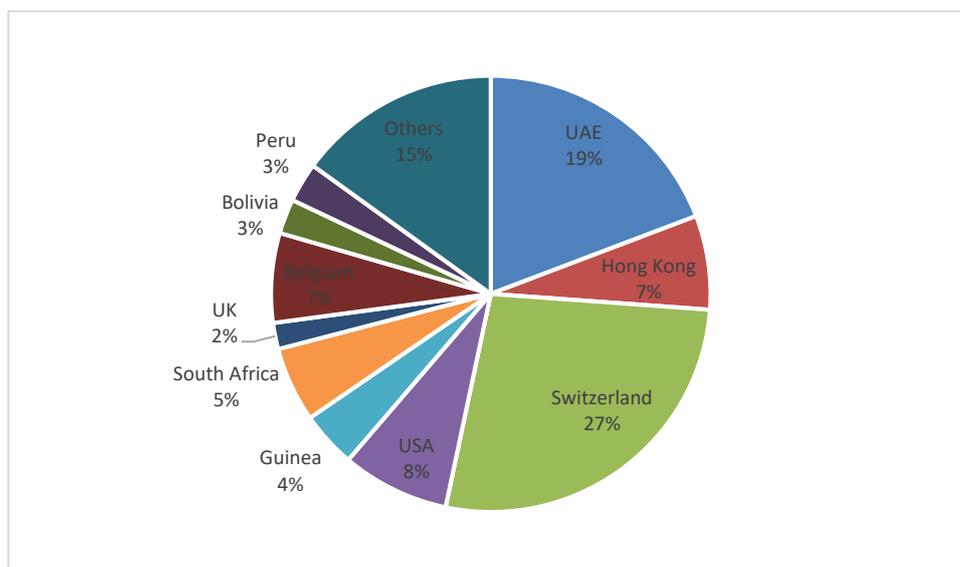
P-Projected

Source: CMIE, Gem Jewellery Export Promotion Council (GJEPC) BWR Research

While growth in demand from the domestic and international markets led to increased demand for raw material, the Russia-Ukraine war had a negative impact on the Indian diamond industry in FY22. Alrosa, Russia's biggest diamond mine, is an important source for India's diamond industry, accounting for around 30% of the total rough diamonds globally. However, on account of growing demand for pearls and diamond, BWR expects imports to increase by 28%-30% in FY23.

The CEPA agreement with UAE could resolve the supply chain issue of the India gems and jewellery manufacturers.

Import source for Indian Gems and Jewellery industry (FY22)



Source: Gem Jewellery Export Promotion Council (GJEPC), BWR Research

Profitability of Gems and Jewellery companies to feel the pressure of price fluctuations

The Indian G&J market has inherently been competitive and dominated by unorganised players, rendering the EBITDA margins low. While the recent regulatory framework about transparency and compliance regulations has highly benefited the organised segment, the unorganised sector still has a better hold in their own markets. In addition, the price fluctuation in the recent past could highly impact the profitability of the industry players.

Due to this, although demand for gold and diamond is expected to increase in FY23 backed by pent-up demand and more disposable funds available to customers, the profitability of these companies would feel the pressure from the price fluctuations of these commodities, competitiveness and regulatory risk. In addition, the rise in demand would mean more capital requirements by companies, exposing them to the interest rate risk.

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