

GEMS & JEWELLERY

Sector Impact - Positive

Background

(USD mn)	Exports			
	FY08	FY09	H1FY10	Growth % (annualized)
Cut & Polished Diamonds	14,194	13,025	7,909	21.4
Gold Jewellery	5,546	6,857	4,461	30.1
Coloured Gemstones	276	266	149	12.0
Rough Diamonds	567	772	360	-6.6
Others	234	199	139	39.2
Total	20,816	21,118	13,017	23.2

Source: Gems & Jewellery Export Promotion Council (GJEPC)

The Indian Gems and Jewellery (GJ) sector has undergone a rough patch last year due to global slowdown which resulted into sharp contraction in exports to US coupled with subdued domestic demand primarily due to higher raw materials costs, inflation and record gold prices all of which resulted into minimal disposable income to purchase gold and diamond jewellery. However, towards the end of CY2009, i.e. in the months of November and December 2009 exports have started to show substantial growth signalling the worst of the sector is over while recovery seems on the track. Exports in segments such as Cut and Polished diamonds and Coloured gemstones, grew 66% and 306% respectively in December 2009. The UAE, led by Dubai, is the largest destination for India's GJ, accounting for 31 per cent of the country's total exports.

Budget Proposals

1. Basic customs duty on Gold Bars and Coins to be increased from Rs. 200/10 grams to Rs. 300/10 grams, while duty for all other forms of Gold to be increased from Rs. 500/10 grams to Rs 750/10 grams. Custom duty on platinum to be increased from Rs. 200/10 grams to Rs. 300/10 grams.
2. Basic customs duty on Silver to be increased from Rs. 1,000/kg to Rs. 1,500/kg.
3. Basic customs duty on Rhodium – a precious metal used in polishing jewellery to be reduced from 10% to 2%.

4. Basic customs duty on Gold ore and concentrate to be reduced from 2% *ad valorem* to a specific duty of Rs. 140/10 grams while excise duty on refined gold made from such ore or concentrate is to be reduced from 8% to a specific duty of Rs. 280/10 grams.
5. Rise in income tax slabs for individual tax payers will increase the disposable income in the hands of consumers.

Duty Structure

	Existing	Proposed
CUSTOMS DUTY		
• Gold bars & gold coins (Rs. per 10 gm)	200	300
• Other forms of gold (Rs. per 10 gm)	500	750
• Silver (Rs. per kg)	1,000	1,500
EXCISE DUTY (%)		
• C&P diamonds	0	No change
• Silver and articles of silver	8	10
• Gold and articles of gold	8	10
• Jewellery	8	10
• Branded Jewellery	Nil	No change

Excluding: 2% Education cess and 1% secondary & higher education cess

Budget Impact: Industry

1. Increase in customs duty on Gold and Silver when compared to the price of the metal is marginal and will not have any impact on consumer demand in the long run.
2. With the extension of 2% interest subvention for another year, the export-oriented sector would be benefited by access to funds at reduced interest rates while giving a boost to their working capital requirement. This will benefit small and medium enterprises in the GJ industry.
3. The government is trying to give a fresh impetus to gold refining in the country with the proposed custom duty reduction in Gold ore and concentrate and has also proposed a reduction in excise duty on refined gold made from such ore or concentrates.
4. CARE Research expects the reduced personal tax outgo thereby leading to boost in disposable income to augment sales of gold and diamond jewellery.

Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
Gitanjali Gems	Diamond	57	1, 2, 3, 4 & 5	▲
	Jewellery	36		
	Gold/Other	7		
Rajesh Exports	Gold Jewellery	100	1, 2, 3, 4 & 5	▲
Asian Star Co	Diamond	88	3 & 5	▲
	Jewellery	5		
	Others	7		
Suashish Diamonds	Diamonds	100	5	▲
Su-Raj Diamonds & Jewellery	Diamonds	48	3 & 5	▲
	Jewellery	52		

Legends:

▲▲	Highly Positive	▼	Negative	◀▶	Neutral
▲	Positive	▼▼	Highly Negative	∅	No Proposals