

Gems and jewelry industry: Future lockdowns hold the clue

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In light of the new wave of covid-19 in India, various state governments have recently decided to re-impose fresh restrictions on movement of individuals. Recently, the Maharashtra state government ruled out the option of going for a complete lockdown, but instead opted to impose stricter restrictions on travel. Such ongoing developments are expected to directly impact the gems and jewelry industry, which is labor intensive and export oriented. Maharashtra considers the gems and jewelry industry as one of its key industries due to its high contribution to export revenues. The state has at least four large gems and jewelry hubs: Mumbai, Kolhapur, Aurangabad and Nanded, where Mumbai is a crucial diamond cutting and polishing center for India. Given the presence of large number of gems and jewelry units in the state, the Maharashtra government provided an exception to this industry and allowed all manufacturing activities to operate, including all incidental activities involved in manufacturing process and for completion of production cycles. This decision to exempt the gems and jewelry industry from covid-19 emergency measures brings relief to all its stakeholders.

Other than various cities of Maharashtra, the gems and jewelry industry has a prominent presence in regions like Surat, Jaipur, Delhi, Kolkata, Visakhapatnam, Indore, Hyderabad, Chennai, Cochin and Noida. All such cities are considered as Special Economic Zones (SEZs) for the gems and jewelry industry in India, which are designated duty free jewelry manufacturing export enclaves, treated as foreign territory for trade operations and duties and tariffs. These are exempt from customs and GST on import/local procurement for the purpose of establishment and maintenance of the unit. The SEZs produce the bulk of modern jewellery found on the shelves of retail giants in the US, Middle East, China and the rest of the world. Studded gold jewellery constitutes the highest share (47%) of net exports of USD 4.3 bn from the SEZs, followed by studded silver jewellery (27.1%), plain gold jewellery (11.8%), plain silver jewellery (7.3%) and polished lab-grown diamonds (3.2%). (according to GJEPC)

Though various state governments are against the imposition of a complete lockdown similar to the ones witnessed in CY2020, given the current scenario of rapid spread of the virus, the possibility of imposing stringent movement restrictions/zone wise lockdowns cannot be ruled out in near future. Hence, the prospects of the gems and jewelry which is labor intensive, depends on how quickly the spread of this virus comes under control.

US and Europe are crucial export markets for this industry. Both nations are currently undergoing a speedy vaccination drive. Hong Kong and China, other crucial markets are also better off in terms of controlling the spread of this virus within their countries. Hence, the export demand for gems and jewelry in FY22 looks upbeat.

Outlook

CARE Ratings expects the gross exports of gems and jewelry in FY22 to be in the range of USD 25 to 35 bn, which is higher than FY21 levels, but still lower than the FY20 levels. It is noteworthy that FY20 was a year which witnessed some degree of slowdown as gross exports declined 10.2% YoY. Hence, reaching FY20 export levels of USD 35 bn in FY22, would translate to 38% YoY growth. The probability of clocking such high growth rate in FY22 is possible if manufacturing activities do not witness any disruption during the year and export demand continues to remain positive.

Taming the further spread of this virus will be crucial also for the gold jewellery segment to grow in India. New restrictions on number of individuals allowed for a marriage ceremony are being imposed, which creates uncertainties in minds of individuals whether to hold the wedding ceremony or postpone it. Alongside, jewelry retailers are not a part of the essential services category as defined by the government. Furthermore, the gold prices which witnessed pressure in recent 2 months, have now started to accelerate as the metal is preferred as a safe haven asset across the globe. These factors could act as headwinds for the gold jewelry industry in the country.

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