

Gems and Jewellery Industry Update for FY20

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Overview

FY20 has been a dreary year for the gems and jewellery industry, which continues to confront multiple obstacles to growth. At the onset of the year, key trade commodities such as polished diamonds and colored gemstones have been burdened with unfavourable government regulations in the form of high custom duty, stricter customs inspection procedures, declining demand from export markets, adverse exchange rate movement and availability of bank credit leading to a working capital crunch. All these have been impediments in the path for industry players.

To add to this, the spread of Covid-19 in key export markets such as USA, Europe, China, Hong Kong and U.A.E. has created further hurdles for this export oriented industry.

With the lengthened lockdown in India, domestic jewellery stores remained temporarily shut for about 40-50 days, leading to negligible sales even on lucrative occasions like Akshaya Tritiya. Elevated gold prices and falling consumer sentiments further impaired end-user demand.

Near term prospects for the industry are not too bright owing to expectations of rising prices of precious metals, economic slowdown negatively impacting disposable incomes and leading to low consumer sentiments. We expect gradual recovery from Q3-FY21 onwards, which marks the onset of the festival and wedding season.

However, long term prospects for the industry remain stable owing to growing consciousness of branded jewellery, increasing purchasing power in the Tier 2 & 3 cities, growing population of working females and a growing preference towards diamond jewellery.

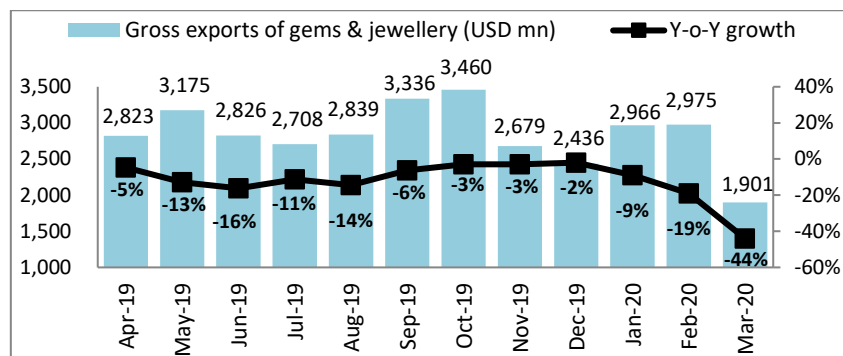
Exports of gems and jewellery

March 2020- Gross exports of gems and jewellery witnessed a steep decline of 44% YoY to reach USD 1,901 mn in March 2020, the sharpest fall in percentage as well as value terms in past 5 years. This is attributed to the already existing fall in demand from top export markets and the outbreak of Covid-19 which led to non fulfillment of export orders.

FY20 - March 2020 was the 12th consecutive month that did not witness any positive YoY exports growth. In FY20, gross exports of gems and

jewellery fell by 10% YoY to USD 35,531 mn. Key commodities such as cut and polished diamonds, rough diamonds, gold medallions and coins and coloured gemstones witnessed declining exports demand. However, other items such as gold jewellery, silver jewellery, polished lab grown diamonds, articles of gold, silver and others witnessed positive growth for cumulative 12 months of FY20.

Chart 1: Monthly gross exports of gems & jewellery



Source: GJEPC

Table 1: Gross exports of key commodities in FY20

Commodity	USD Mn	Y-o-Y growth (%)
Cut and polished diamonds	18,660	-22
Gold jewellery	11,993	2
Silver jewellery	1,687	103
Rough diamonds	1,105	-18
Gold medallions and coins	832	-5
Polished lab grown diamonds	413	88
Coloured gemstones	321	-19

Top export markets

U.A.E., Hong Kong and USA are the top three destinations for gems and jewellery exports from India, cumulatively contributing 78% share. Other smaller markets include Belgium, Israel, Turkey, Thailand, Japan, Singapore, etc. Exports to the top three markets are detailed below (sourced from CMIE):-

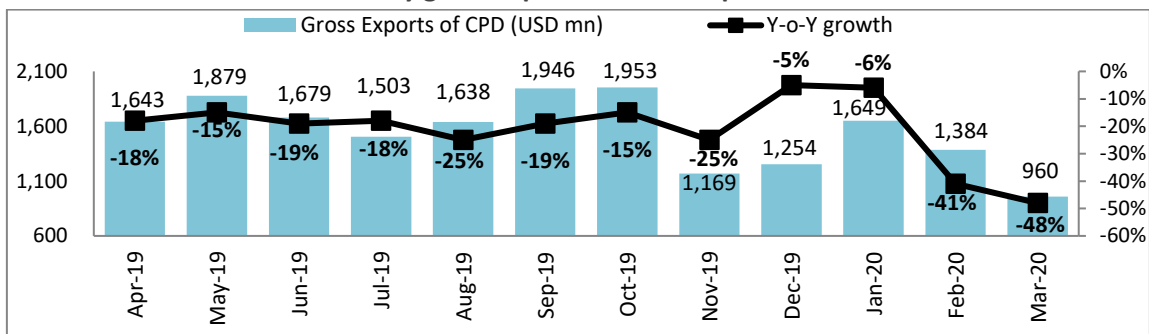
1. U.A.E. continues to be the largest market (27% share) to which India exports gems and jewellery. U.A.E. is considered an export hub with imported items being used for domestic consumption as well as re-export to neighbouring Gulf nations. In 11M-FY20, India exported gems and jewellery of USD 9,185 mn, 2% YoY decline. Items exported to U.A.E. include gold, pearls, precious and semi-precious stones, gold jewellery and other precious metal jewellery.
2. USA is the second largest market in terms of exports of gems and jewellery with a share of ~26%. In 11M-FY20, India exported gems and jewellery of USD 8,738 mn witnessing 8% YoY decline. Exported commodities include gold and other precious metal jewellery of ~USD 1,904 mn and pearls, precious and semi-precious stones of ~USD 6,828 mn. In June 2019, USA withdrew India from the benefits of Generalized System of Preferences (GSP) leading to imposition of additional duties. With this, exports of pearls, precious and semi-precious stones suffered the most with 12% YoY decline from June 2019-Feb 2020.
3. With an overall share of 25%, Hong Kong is the third largest market to which India exports gems and jewellery. This country is an export hub and most items are re-routed to China and other south-east Asian nations besides domestic consumption. Total exports in 11M-FY20 summed to USD 8,587 mn, of which pearls, precious and semi-precious stones were the most preferred items with 75% share. However, the massive political unrests in Hong Kong during 2019 led to exports of pearls, precious and semi-precious stones declining by 30% YoY, and therefore, overall gems and jewellery exports declined by 17% YoY in 11M-FY20.

Cut and polished diamonds exports

India is considered the world’s largest centre for cutting and polishing of diamonds with most players concentrated in two cities of Gujarat- Surat and Navasari. The CPD industry contributes nearly 53% share to the overall gems and jewellery exports from India. It is a largely fragmented, unorganised and export driven industry, with intense competition among players that operate on thin profitability and working capital intensive operations.

Since November 2018 exports of CPD have been on a declining trend. As depicted in chart 2, CPD exports fell sharply by 48% YoY in March 2020, which led to overall exports for FY20 declining by 22% YoY to USD 18,660 mn. CPD players are facing multiple challenges including liquidity issues for suppliers leading to destocking of diamonds, forex volatility, low bank credit availability affecting day-to-day operations, etc. Additionally, muted demand in recent months and a halt in trade due to Covid-19 has led to a built-up inventory of finished goods resulting in elongated operating cycles.

Chart 2: Monthly gross exports of cut and polished diamonds

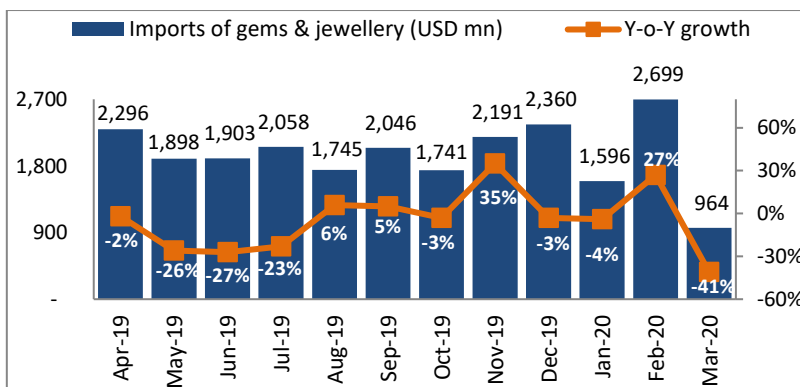


Source: GJEPC

Imports

Eight out of twelve months of FY20 witnessed a decline in YoY growth of gems and jewellery imports. In March 2020, imports declined by 41% YoY, which led to total imports for FY20 declining by 6% YoY to USD 24,015 mn. Key commodities such as rough diamonds and rough coloured gemstones registered a fall in imports growth, while items like gold bar, cut and polished diamonds, coloured gemstones, rough lab grown diamonds, gold and silver jewellery witnessed positive imports growth in FY20. Switzerland is the largest imports market with 26% share, followed by U.A.E. (21% share) and Belgium (16% share). Other markets include Hong Kong, Russia, South Africa, Canada, USA, Israel, etc.

Chart 3: Monthly imports of gems and jewellery



Source: GJEPC

Table 2: Commodity wise imports in FY20

Commodity	USD Mn	Y-o-Y growth (%)
Rough diamonds	12,682	-16
Gold bar	7,821	4
Cut and polished diamonds	1,713	29
Coloured gemstones	528	34
Rough lab grown diamonds	324	139
Gold jewellery	290	3
Rough coloured gemstones	250	-29
Silver jewellery	67	16

Credit growth

The gems and jewellery industry is facing increasing pressures on borrowings due to cautious and reduced bank lending, which is much more evident with unorganised and small scale players. After a financial scam broke out in January 2018, bank lending to this industry is on a consistent decline. As on 30th March 2018, outstanding credit to this industry stood at Rs. 727 bn, which declined by Rs.6 bn in FY19. Credit growth further witnessed a sharp fall of Rs. 125 bn in FY20. As on 27th March 2020, outstanding credit to this industry stood at Rs. 595 bn. Such cautious bank lending can create further stress on liquidity.

Gold price movement

Rising global uncertainties in the recent months have led to investors resorting to gold and silver as their preferred asset class for investment. Due to this, prices of such precious metals peaked during the year. On an average, international (monthly) gold prices surged 16% Y-o-Y in FY20.

Global macro-economic factors that can be attributed for this surge are unsettling trade wars between two large global economies-USA and China, political tensions in Middle East, unresolving Brexit issues, oil price volatility, recent outbreak of Covid-19 and risk of recession. A falling interest rate also climate helped grow investors' preference towards gold and silver.



Outlook

- **Trade:** Hong Kong, USA, U.A.E., Belgium and Israel are the top 5 markets to which India exported gems and jewellery in 11M-FY20. These cumulatively contributed 87% share, equivalent to USD 29.4 bn. Due to ongoing economic slowdown, spending power in these nations has reduced and the lockdown has created challenges in logistics. Revival of export demand in these markets is directly dependent on how soon lockdown in these nations ease and consumer sentiments improve.
- Various gems and jewellery trade fairs organised in large hubs like USA, Belgium and Hong Kong, which attract over 5,000 exhibitors and about 100,000 buyers have been rescheduled/cancelled due to Covid-19. Such imposed lockdowns have temporarily disrupted operations of all members of the value chain and impacted exports to a large extent. However, in order to enable export of pending orders on priority basis and prevent loss of business, the government allowed export units at Bharat Diamond Bourse and SEEPZ to operate. With this, exports of gems and jewellery are expected to witness a temporary rise in the months of May and June 2020, post which there could be a dent again. We expect gradual recovery of trade Q3-FY21 onwards, as lockdown eases and operations start resuming to normality.
- **Domestic demand:** Domestic jewellery retailers, who were already distressed with soft demand due to escalated gold prices in past recent months, had to temporarily shut their stores due to the lockdown imposed in India. Though some jewellery stores had resumed operations mid-May 2020 onwards, measures to contain the pandemic may result in stores staying shut for longer periods. Additionally, jewellery stores that are located in malls, shall face a

greater dent in footfalls in near term. This shall lead to heavy loss of revenue, stress on profitability, increase in inventory days and lengthening of operating cycles, which could further dampen borrowing abilities in future and create liquidity pressure. In such a situation, we expect players with a strong brand and presence in multiple markets to benefit. Some branded players have also sought to online channels as a mode of jewellery sales.

- As gems and jewellery products are discretionary in nature, consumer demand is expected to remain muted for the short term. However, long term prospects remain stable owing to growing consciousness of branded jewellery, increasing purchasing power in the Tier 2 & 3 cities, growing population of working females and increasing preference towards diamond jewellery.

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