

# Analysis of the indian jewellery industry



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## **Role in Indian Economy**

The Gems and Jewellery (G&J) market is composed of sourcing, processing, manufacturing and selling of precious metals and gemstones – Gold, Platinum, Silver, Diamond, Ruby, and Sapphire etc. The G&J market is a significant contributor to the Indian economy, based on the size of the domestic market and through its contribution to the country's exports. The consumption of gold in India stands at 1000 tonnes per year (around 20 percent of global consumption) – largest consumer; it is also the processes 90% of the diamonds by pieces (55 percent by value of the global market) – largest consumer. The Gems and Jewellery Export Promotion Council (GJEPC) is responsible for sustaining the new initiatives in the sector(Public enterprise).

The industry holds prominent significance as it is a net exporter and provides employment to 1.3 million people directly and indirectly. India is also emerging as the world's largest trading centre for gold targeting US\$ 16 billion by 2010. GJ market contributes 16 per cent of total exports, making it a significant foreign exchange earner for the country.

## **Growth Potential**

Jewellery Retail

Sourcing & Mining of Metals

The Industry's value chain is indicated by the diagram above. India is not a major miner of precious metals and stones. The country's inexpensive and skilled workforce are one of the best in the world for processing of diamonds

though. The most interesting development in India's diamond industry in the last five years has been the industry's steady progress up the value chain; from the skill to the ability to innovate and develop.

Currently, India's G&J industry is highly unorganized and fragmented with 96 percent of the total players being family owned businesses. The gold processing industry has around 15, 000 players, with only 80 having revenues over USD 5 million. India is also home to around 450, 000 goldsmiths, 100, 000 gold jewelers along with 6, 000 diamond processing players and 8, 000 diamond jewelers.

Consumers have started shifting towards branded jewellery, which offers higher quality and saves the consumers from unfair trade practices in the industry. The emergence of jewelry retail chains provide customers with convenience and assurance of quality. The organized gems and jewellery sector is expected to progress with a good pace in near future, and should hopefully account for nearly 8% of the total gems and jewellery market by 2009-10. The Branded jewellery segment is also expected to have a high growth rate.

The key drivers for the industry growth are raising disposable income, conscious marketing efforts, rising young population with urge to spend and jewellery being increasingly regarded as fashion accessory.

The entry of foreign players is also likely to increase competition and provide consumers with greater choice. As Indian gem and jewelry exports have grown to \$17 billion, the industry has witnessed an annual average growth rate of about 15-20 percent.

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## **EXPORTS**

The gems and jewellery industry provides a shining example of achieving international competitiveness. The bulk of the Indian GJ exports comprises import of rough diamonds, their cutting and polishing in India, and re-export. CPDs(Cut-Polished-Diamonds) accounted for 71. 1% of India's GJ exports during FY2006, followed by gold jewellery (23. 2%), rough diamonds (3. 4%), coloured gemstones (1. 4%), and non-gold jewellery (0. 9%). Thus, these two items-CPDs and gold jewellery- accountrd for around 96% of India's GJ exports.

Gems and jewellery exports from India have risen from Rs 2 crore in 1960-61 to Rs 22 crore in 1966-67, the year in which the industry's export promotion body, The Gem & Jewellery Export Promotion Council (GJEPC), was set up to Rs. 45 crore in 1970-71.

India's gem and jewellery exports displayed a growth of 1. 45 per cent during 2008-09 at \$21. 1 billion, primarily driven by gold jewellery exports, including medallions and ornament, over the exports of \$20. 8 billion of gem and jewellery in 2007-08. The overall export for 2008-09 was \$21. 9 billion on the heels of a substantial demand in the first half of the last fiscal and augmented gold jewellery exports to the United Arab Emirates (UAE) which has become the largest exporting destination accounting for 31 per cent of India's exports. This was followed by Hong Kong with 25 per cent and the US with 20 per cent.

Source: (GJEPC), Mumbai

The trend for export based demand for the Indian GJ sector is 80-90 percent as compared to the domestic demand between 10-20 percent. Out of the total demand for Indian GJ in 2008, 90.45 per cent was export driven and the remaining 9.55 was from domestic consumers. GJ sector accounted for 13 per cent of India's total merchandise exports.

### **Top Export Destinations**

United States, Hong Kong, UAE, Singapore, Belgium, Israel, Japan, Switzerland, Thailand, U. K

### **MARKET STRUCTURE**

Emerging from relatively humble beginnings of a small and unorganized sector in the 1950s and 1960s, the Indian gems & jewellery industry has rapidly emerged as one of the leading export oriented industries in India and a significant foreign exchange earner for the country. However, the demand for different types of G&J is influenced by different factors including buyer preferences, properties, varieties, unit values, application etc.

The GJ Sector may be further classified into the following sub-sectors based on the characteristics, processing techniques and preciousness in terms of price range and marketability:

The two major segments in India are gold and diamonds.

### **GOLD**

Gold is an integral part of the Indian tradition & history. Gold jewellery is the preferred jewellery worn by women in India irrespective of their religious beliefs. India also dominates the gold and silver consumption globally with

consumption of about 10000 tones p. a. (largest consumers in the world). Domestic Consumption of gold jewelery manufactured in India is also very high.

## **Demand**

India's gold jewellery demand is seasonal with the highest consumption during the festival and wedding season. Demand for gold in India has an inverse relationship with price volatility. With increased volatility in current months, the consumption has declined. However, gold is also considered a natural hedge against inflation and is considered a safer option in times of economic uncertainty which leads to gold demand in the form of retail investments and Exchange Traded funds (ETF). The demand for gold and gold-jewellery is related to international prices, currency fluctuations, agricultural production, and the number of marriages. The consumer is therefore very sensitive to price. A rise in the price can cause quite a sharp fall in the amount of new gold purchased. India has been the largest consumer of gold for jewellery in recent times.

The domestic demand for gold jewellery is estimated at Rs. 390 billion in 2005, accounting for an estimated 80% of the Indian jewellery market of Rs. 490 billion. Apart from its historical religious significance, gold circulates within the system and roughly 30% of gold jewellery fabrication is from recycled pieces. India is the largest consumer of gold with a consumption of 800 tonnes per year.

## **Standardisation and Hallmarking**

The Gold jewelry trade in India is based on Confidence. In previous times, a reputed goldsmith had a fixed standing of local clientele in a specific area. The buyer has implicit faith in his jeweller, and may not negotiate too much.

Standardization of jewelry designs across the country is not feasible due to the presence of local tastes. In the present system of selling gold jewellery, the purity may or may not be as marked, and the buyer can lose. The original labour component is also a loss when gold is sold in the market. Cheating on caratage (and purity) is widespread. Thus, in 2000, the Gol introduced voluntary hallmarking of gold jewellery through the Bureau of Indian Standards (BIS). The system of hallmarking is expected to increase the buyer's confidence in the jewellery purity.

## **DIAMOND**

Diamond is an ' export-led' and ' value added' industry. The industry depends entirely on imported raw material, namely, rough diamonds, generally referred to as " roughs" in trade parlance. The diamond exporters have developed a global outlook, as theirs is an export-oriented and import-dependent industry.

In the diamond business, Indian companies are mostly present at the ' Beneficiate' level of the value chain; act as beneficiaries by importing rough diamonds (or ' roughs') from mining companies, cutting and polishing roughs, and exporting them for further consumption in jewellery, etc.

## **Demand**

Prices of diamonds are dictated by demand-supply gap with demand dominated in western countries, especially the US. Because of increased disposable income and aggressive promotion strategies by the diamond industry, Indian diamond jewellery demand has increased significantly in recent years—from Rs. 19.7 billion in 1995 to around Rs. 80 billion in 2005. India dominates the diamond processing trade with 11 out of 12 diamonds being cut and polished in India.

Market size of Indian GJ is sector is driven by the demand for the domestic and international markets. The Indian GJ sector is going through rough patches since 2008 with more than 100000 skilled and unskilled labor being laid off due to poor demand or declining export trend from US which is reeling through economic slowdown, inflationary trend and rising raw material cost.

The diamond market is oligopolistic with De Beers being the dominating body (sometimes called the Wal-Mart of Diamonds). This dominance has led to the existence of a market sharing cartel. But in the recent years the different countries starting their own production of diamonds and manufacturing show that the trend is shifting to monopolistic market structure.

## **Major issues affecting the sector that need assistance**

### **Large Presence of Unorganized Sector**

The bulk of the Gem and Jewellery industry in India is concentrated in the unorganized sector and employs around 2 million workers serving over 0.1



million gold jewellers and over 8, 000 diamond jewellers. The majority of India's diamond workforce is employed by small units that process diamonds on a job-lot basis.

The share of the unorganized sector in the Indian GJ business is declining. According to a survey commissioned by GJEPC, the share of the organized sector in diamond processing increased from 9% in 1995 to 45% in 1998. This was because of the shift in processing towards higher stones, implementation of advanced cutting techniques, and preference of buyers towards fewer sellers.

### **Technological constraints**

Technology is another area where the Indian industry faces a long-term threat from other countries. Until now, a combination of manual skill and semi-automatic machines has helped the Indian industry to maintain a leadership position. However, China with its modern and automatic factories is today in a similar position to manufacture jewellery at competitive prices. Increased competition will force the Indian industry to focus on higher-end products, with the concomitant requirement of increased investment in modern technology.

### **Substantial dependence on Imported Raw Materials**

With negligible production of gold and diamonds, the Indian GJ industry is almost entirely dependent on imported raw materials. During FY2006, imports of pearls, precious & semi-precious stones aggregated Rs. 404. 69 billion (US\$9. 42 billion), accounting for 11. 2% of India's non-bulk imports, and 6. 4% of total imports. With the increase in exports in recent years, the

GJ industry has also accounted for an increased share of gross bank credit (GBC) of scheduled commercial banks (SCBs). With GBC of Rs. 198. 66 billion in March 2006, the industry accounted for 3. 61% of industry GBC of SCBs in March 2006, as compared with 2. 7% in March 2000.

## **Government Initiatives**

The Indian government has provided an impetus to the gems and jewellery industry with its foreign trade policies:

100 per cent foreign direct investment (FDI) in gems and jewellery allowed through the automatic route.

The government has lowered import duty on platinum and has exempted rough colored precious gems stones from customs duty. Rough, semi-precious stones are also exempt from import duty.

Duty-free import of consumables for metals other than gold and platinum up to 2 per cent of freight on board value of exports.

Setting up of SEZs and gems and jewellery parks to promote investment in the sector.

The export of colored gemstones on a consignment basis has been allowed.

## **Social benefits in various segments**

The Indian gems and jewellery industry has proved its mettle in international competitiveness. Simultaneously, it has also made significant socio-economic contributions.

**Employment generation with low investment:**

The investment required for creating employment in the diamond processing and jewellery-making units is quite low. Employment generation in other industries calls for heavy investments.

**Hard currency foreign exchange earnings:**

The countries to which India exports gems and jewellery are among the hard currency areas.

The industry contributes continuously to the country's foreign exchange reserves.

**Pollution-free industry:**

Diamond processing and jewellery manufacture do not pollute the environment, neither air nor water.

**Environmental friendly industry**

Being an import-based industry, it does not deplete natural resources and leaves the flora and the fauna intact.

**Assists in urban decongestion**

Through decentralized location, the gems and jewellery industry helps in the removal of unemployment in the rural sector, prevention of migration to cities and the avoidance of slums in the urban areas.

**Low Power Consumption**

The gems and jewellery manufacturing processes do not aggravate the country's energy problems.

## **No burden on the country's transport infrastructure**

The raw materials as also the finished products are of high-value but of low weight. They do not put any burden on the country's road, rail, sea or air transport.