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GEMS AND JEWELLERY: TOWARDS A TURNAROUND

To move around rising inventories and a slump in growth, India's jewellery designers must innovate. Also, the industry should come together to promote its interests and evolve a common marketing strategy.

India's gems and jewellery industry, worth Rs 800 billion, is in trouble. It has witnessed a 10 to 15 per cent decline in sales due to the global economic crisis. The industry accounts for about 13 per cent of India's exports and employs nearly five lakh people. Almost 80 per cent of the country's gems and jewellery exports comprise diamonds. This sector may cross Rs 1250 billion by 2012.

Yet, all is not well with this industry. Inventories have gone up to a 10-12 month level from the normal level of 3 to 4 months. This means that the industry can continue to sell even if it does not produce anything for the next 12 months.

It may be noted that rough diamonds, a major raw material, accounts for about 65 per cent of the finished jewellery cost. The gems and jewellery sector consists of three segments, namely, diamonds, gold jewellery, coloured gemstones and other items. The major markets include the US, Hong Kong, UAE, Belgium, Israel, Japan, Thailand and the United Kingdom.

Gems and jewellery units that operate in special economic zones are facing a number of problems—tax refunds, withdrawal of customs duty exemption, increasing cost of diamonds and competition from China. The situation can be managed only through productivity gains.

By June 2, 2009, the price of gold climbed above $985 (Rs 39,400) an ounce. The slumping dollar enhanced the demand for the precious metal. As gold prices shot up, imitation jewellery became popular. Imitation jewellery largely makes use of materials like brass, cast iron, plastic beads and a number of stones. It has, of course, no resale value. The demand comes mainly from the price-sensitive rural and middle classes. These people choose not to spend on intricate real jewellery when they get the same design, courtesy imitation jewellery. There is also demand for this jewellery from East Africa, the UK, Canada and the US. Besides, Indian jewellery has more variety and lasts longer than Chinese jewellery, though the latter is cheaper.

India's gold jewellery is still in demand

Exports of Gems and Jewellery

($ billion)

Item	2007-08	2008-09	Growth (per cent)
Cut and polished diamond	14.19	13.02	–8.24
Gold jewellery	5.54	6.85	23.64
Coloured gemstone	0.27	0.26	–3.68
Other items	0.23	0.19	–15.12
Rough diamond	0.56	0.77	36.18
Total	**20.81**	**21.11**	**1.45**

Source: GJEPC

Because of the rise in gold prices, the sale of used jewellery or scrap is also increasing. One reason for this is that a set of customers that built stocks through intermittent buying in the past, are de-stocking to book profits and invest in real estate and bonds. The other reason is that another set of customers is exchanging the scrap for new gold jewellery with the latest designs, as jewellers are making attractive exchange offers.

Diamond processing

India's diamond industry employs abound 700,000 people in Gujarat alone. However, some diamond firms have decided to diversify into unrelated areas like real estate and stock broking in order to hedge their risks.

In 2008, diamonds attracted funds as gem prices rose by nearly 75 per cent. In 2003, dealers used to pay $70,000 (Rs 33,60,000) per carat for colourless diamonds of 10 carats and more. By 2008, this rose to $200,000 (Rs 96,00,000) per carat. Diamonds are getting rarer. There are only about 200 highest-grade D-flawless colourless diamonds of more than 5 carats mined per year.

India is beginning to face new competition in the diamond business from China, which has emerged as the world's largest diamond processing centre after India. China had no traditional connections with the diamond business. Yet, the country's diamond processing trade averaged 3 million carats a year between 2003 and 2007. There are now over 80 diamond processing trade enterprises in the country, employing around 30,000 workers. Of course, China remains more expensive than India. In 2006, China scrapped VAT on imported roughs and reduced taxes on polished diamonds from 17 to 4 per cent.

There has been some recovery in demand from local as well as international markets. However, almost half of the 100 diamond varieties are in short supply. The industry has also lost a good number of skilled workers. Diamond processing cannot be stopped completely because of the fear of losing a trained workforce. But the capacity can be reduced. The industry is currently operating at 60 to 65 per cent of its capacity.

The rising rupee has cost 1.5 lakh diamond workers their jobs in 2007. The export growth in this segment was not real. It did not benefit the manufacturers. The surge in exports was because of an import duty cut on polished diamonds. When the dollar weakened against the rupee, exporters preferred polished diamonds to sourcing them from within the country. Local diamond outfits were losing business and began axing jobs.

Due to reduced mining activity around the world, the Diamond Trading Corporation (DTC), the world's leading supplier of rough stones, had to reduce supply to several companies. However, earlier, diamonds did not have a resale value. But now, because of the entry of reputed business houses and retail brands, customer education and confidence building, that has changed. Today, guarantee certificates and buy-back policies provide the necessary assurances to Indians.

Export trends

The export of gold jewellery was valued at Rs 3642.5 million in 1990-91. This increased to Rs 11,486.9 million in 1993-94; Rs 30,969.4 million in 1997-98; Rs 55,381.5 million in 2001-02; Rs 122,545.6 million in 2003-04 and Rs 226,250 million in 2007-08.

Indian exports of gems and jewellery increased from Rs 556,840 million in 2003-04 to Rs 702,450 million in 2004-05; Rs 942,370 million in 2005-06; Rs 772,030 million in 2006-07 and to Rs 840,580 million in 2007-08. This was around Rs 1,055,500 million in 2008-09.

The US accounts for 30 per cent of India's gems and jewellery exports, but the world's largest economy is struggling through a recession. Of course, as if to compensate for the fall in demand from the US, there has been a sudden demand from West Asia (Dubai, in particular) and China. Domestic demand has also picked up. As a result, the jewellery inventory in June 2009 came down to four months of annual jewellery exports as against 10 months during the peak recession in September-October 2008.

Due to the slump in the US economy, in May 2009, exports to that country stood at $1.5 billion—a fall of 24 per cent compared to the figure for May 2008. Overall, India exported gems and jewellery worth $20.81 billion in 2007-08, and $21.11 billion in 2008-09.

The slowdown in the expansion of gems and jewellery exports in 2008-09 was cushioned by a 23.6 per cent growth in gold jewellery, which stood at $6.85 billion in 2008-09 as against $5.54 billion in 2007-08.

Gem and jewellery exporters fear a global credit crunch. Earlier, they used to depend on the flow of cheap dollar loans when the rupee rose against the dollar. This has been reversed in 2009. The jewellers now find themselves forced to take out more expensive rupee loans, while high interest rates are hurting the exporters. Rupee loans carry an interest rate of 10 to 12 per cent while dollar loans carry an interest rate of 7 per cent.

Recent developments

Jewellery designers will have to work on innovative design concepts that will add some utility value to luxury jewellery products and help jewellers stay afloat. Luxury spending in India is increasing. Jewellery is now being increasingly pitched against other luxury products, thereby requiring innovation. This has been recognised in India. One student has developed gold jewellery with a hidden microphone; another has developed jewellery that can function as a USB drive.

The Gems and Jewellery Export Promotion Council (GJEPC) is seeking a tax exemption on export profits for two years for the industry. The sector also needs finance for survival. Presently, industry players are charged 5 to 6 per cent on the finance from the international market, while in rupee terms, the interest works out to 9 per cent.

The World Gold Council (WGC) favours mandatory hallmarking of gold jewellery as the certification would guarantee quality. The central government earlier was prepared to make hallmarking mandatory beginning 2008, but it was postponed because of concerns relating to traditional jewellers in the villages.

Today, small jewellers are joining hands to create brands. They are coming together to form an umbrella brand and share a common marketing strategy. This move will enhance product availability through common sourcing and help the small retailers climb up the value chain. Indian consumers generally make jewellery purchases from family jewellers. But, the consumers are graduating to buying branded jewellery.

Some experts feel that there is a need for a joint body to promote jewellery sales in India. Even the GJEPC has proposed to form an industry body comprising global associations and other trade units, to promote gold and diamond jewellery in India. Working together would allow units to prepare for the future collectively, instead of every unit investing in the marketing and retail effort. Of course, the collective approach would require huge financial resources. The consensus is that a common platform would be of great help.