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GEMS AND JEWELLERY: FLUCTUATING FORTUNES

Fortunes of the Indian gems and jewellery sector are closely linked to the rise and fall of the rupee. Since this sector largely depends on the import of raw stones for cutting, and then re-export, currency fluctuations impact the industry tremendously. Read on to find out how this once thriving sector is now going through a slump.

The jewellery industry is important to India for more than one reason. It provides employment to over 10 million people. It also contributes a significant amount to the country's foreign exchange reserves. This sector is growing at about 30 per cent annually. There are about 300,000 jewellery outlets in the country.

India is the largest supplier of jewellery to the USA—the world's largest market, which accounts for nearly 40 per cent of global consumption. Of course, India is also the largest consumer of gold in the world. It imports an average of about 700 tonnes of the metal each year.

Current trends

Consumers' preferences change frequently in the jewellery segment. Of late, glittering and colourful gemstones have become the preferred choice of jewellery buyers. Even older customers look for something different to get noticed in a crowd. For wedding jewellery sets, and even for casual wear, consumers are opting for colourful gemstones studded in diamond jewellery. In India, there is demand for every type of gemstone, during the various festivals.

The Indian mindset is gradually changing. Urban India is now looking at jewellery as art pieces. Jewellers have to bank on this trend. Margins have come down to 3 to 5 per cent. However, for studded jewellery, margins are higher and sometimes may go up to 30 per cent.

Gemstones are available at hardly 10 per cent of the cost of diamonds, which are unaffordable mainly because of the absence of new mines, and rapid depletion of the existing ones.

Hence gemstone demand has seen a compounded annual growth rate of 20 to 25 per cent in recent years. The overall market in India is around Rs 22,000 million.

There has also been a rise in the use of semi-precious stones as embellishments. Many brides are also opting for pieces with a lower gold content so that they can have two-three sets for the same price, that can be used at various occasions.

With a rise in gold consumption across cities, especially by young middle-class customers, gold retailers are focusing on expanding their outlets in a big way. However, jewellery retail in the country has largely been an unorganised affair. While the market might be growing at 15 per cent a year, the organised part is speeding ahead, registering an annual growth rate of 40 to 50 per cent. There is a big shift from the unorganised to the organised sector.

With the government curbing gold imports, jewellers have started focusing on making ornaments to increase their income without putting in any working capital. They have started gradually phasing out the sale of coins and bars. The focus is on ornaments that bring higher margins. Major companies charge 10 to 15 per cent as making-charges for ornaments.

Gems and Jewellery Exports from India

(Rs million)

Item	2011	2012	Per cent change
Cut and polished diamonds	1,256,638.3	906,303.2	–27.88
Gold jewellery	431,912.8	704,889.5	63.2
Gold medallions and coins	321,061.7	289,933.6	–9.7
Coloured gemstones	16,022.2	17,543.8	9.5
Silver jewellery	33,390.9	42,562.3	27.47
Pearls	117.2	248.1	1120
Synthetic stones	1164.9	1281.3	100
Rough diamonds	79,225.3	78,082.7	–1.44
Others	4109.8	3045	25.9
Total	**2,143,643.2**	**2,043,889**	**–4.65**

Source: GJEPC

A big problem facing the jewellery segment is the escalating price of raw materials—gold and diamonds. Diamond prices shot up because of a strong demand from the US, China, and India, and limited stocks and supplies from the mines.

The diamond trade

Diamonds face competition from coloured gems like emeralds, rubies and sapphires. Actually, diamond exports are not encouraging. In 2010-11, 66.64 million carats of cut and polished diamonds were exported. This fell to 51.86 million carats in 2011-12. In October 2011, the rupee was quoted at Rs 49.16 a dollar, but it rose to touch Rs 57 a dollar by June 2012. A strong rupee would make imports cheap.

India exports about $29 billion of loose diamonds, which are set in jewellery in other countries. The country manufactures over 92 per cent of the world's diamonds in terms of the number of pieces, and about 70 per cent in terms of value.

Diamond jewellery

India has a highly successful Technology Upgradation Fund Scheme (TUFS) for the textile sector. Along the same lines, a Commerce Ministry Task Force has recommended a TUFS for the diamond processing sector with a minimum budgetary corpus of Rs 2000 million. The industry is currently struggling because of an acute shortage of skilled labourers and a drastic fall in exports.

One suggestion made by the Task Force is that global mines such as De Beers and Rio Tinto should be allowed to bring rough diamonds to India to sell them here and pay taxes at the prevailing rate, while they should be allowed to take back the unsold quantity duty-free.

At present, global mines take the entire quantity of rough diamonds directly to major hubs like Belgium, assort them and sell to global processors, including Indians, to avoid taxes. This raises diamond prices unnecessarily due to the involvement of middlemen. It also delays supply of goods to the Indian processing centres.

The Task Force has suggested the setting up of a major convention centre to engage local diamond traders in India, apart from allowing a duty-free import quota for cut and polished diamonds to the tune of 15 per cent of the previous three years' average exports. At present, about 23 types of documents are required to execute orders. The Task Force felt that the number should be brought down to 12.

Diamond units in Gujarat have initiated measures to cut power costs. By changing the designs of diamond hot plates and the diamond lathe, the industry has saved a lot. The Sawaliya Research Centre has successfully carried out experiments in this direction, for which it has sought the help of the Gujarat Energy Development Authority (GEDA).

More than 90 per cent of the units have accepted the new designs. The research has helped diamond units save at least 50 per cent on electric bills. While the traditional hot plates use 10 units of power daily, the new hot plates use only five. A high conductivity material has been used in making this plate. Also, an automatic temperature control system has been deployed. The use of a mono-block diamond lathe has also decreased electricity usage.

Imitation Jewellery

The demand for imitation jewellery has surged by over 85 per cent in 2012 on account of rising gold and silver prices.

The imitation jewellery market in India is now worth above Rs 80,000 million. This may reach the Rs 150,000 million mark by 2015. Factors contributing to this trend include volatile gold prices, fashion-conscious consumers, higher disposable incomes and the easy-to-carry nature of such jewellery. The high price of gold induces customers to opt for relatively inexpensive but equally flashy costume jewellery, especially during festivals and marriages. Also, imitation jewellery is available in a much wider range of designs and colours.

Jewellery exports

India's gems and jewellery exports declined 17.09 per cent in dollar terms, and 4.65 per cent in rupee terms in 2012 mainly because of stagnating demand in West Asian and European markets. According to the Gems and Jewellery Export Promotion Council (GJEPC), exports fell to $38.3 billion in 2012 compared with $46.2 billion in the previous year.

Gold jewellery

New initiatives

With gold prices touching their all-time high, jewellery makers are looking at new products to revive sales, and attract more consumers. These include more category launches, lower-weight jewellery and store expansion. Some companies are offering 10 to 20 per cent off on diamond jewellery.

Gold jewellers are now offering the instalment payment option to attract customers as high gold prices have brought down sales. They are encouraging customers to join a gold savings scheme and get instalment payments waived. For instance, Delhi-based P.C. Jewellers (PCJ) is offering to waive two instalments (maximum) for the customers in its 'Jewel for Less' scheme. Its customer can buy gold or diamond jewellery in the same month of maturity. Other jewellers make customers wait for at least a month from the date of maturity before a member can buy.

On February 20, 2013, the government decided to ban the import of gold jewellery from Thailand unless 20 per cent value addition was done in the Southeast Asian country. Under the early harvest scheme (EHS), gold jewellery from Thailand is imported at a concessional duty of just 1 per cent. (The regular duty is six per cent.) This concession is available only if there is a minimum 20 per cent value addition in the jewellery before it comes to India. The government suspects the value addition norm is being violated. Also, gold jewellery from China and Malaysia is often imported via Thailand to avail the concessional import duty.

The Indian jewellery segment has to continually innovate and experiment with new 'touch points' to reach out to potential customers. ■

The author is an economist and a writer