

INDIAN JEWELLERY INDUSTRY

The gems and jewellery industry occupies an important position in the Indian economy. It is a leading foreign exchange earner, as well as one of the fastest growing industries in the country.

The two major segments of the sector in India are gold jewellery and diamonds. Gold jewellery forms around 80 per cent of the Indian jewellery market, with the balance comprising fabricated studded jewellery that includes diamond and gemstone studded jewellery. Besides, India is world's largest cutting and polishing Industry for diamonds, well supported by government policies and the banking sector with around 50 banks providing nearly \$3 billion of credit to the Indian diamond industry.

A predominant portion of the gold jewellery manufactured in India is consumed in the domestic market. However, a major portion of the rough, uncut diamonds processed in India is exported, either in the form of polished diamonds or finished diamond jewellery. The largest consumer of gold worldwide, India is also the leading diamond cutting nation.

Gold and precious gems have played a pivotal role in the Indian social fabric and economy. Precious gems and jewellery are a part and parcel of Indian traditions and customs. Gold has traditionally been valued in India as a savings-and-investment vehicle and even today, continues to be the second most popular instrument after bank deposits.

Gems and jewellery is one of the fastest growing sectors in the Indian economy with an annual growth rate of approximately 15 per cent. The gems and jewellery industry accounts for nearly 20 per cent of the total Indian exports and employs over 1.3 million people, directly or indirectly.

The Gems and Jewellery (G&J) market essentially comprises of sourcing, processing, manufacturing and selling of precious metals and gemstones, such as, 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. India is the largest consumer of gold (around 20 percent of global consumption) and also the largest diamond processor (around 90 percent by pieces and 55 percent by value of the global market).

Brief History:

Before the liberalization of the Indian economy in 1991, only the Minerals and Metals Trading Corporation of India (MMTC) and the State Bank of India (SBI) were allowed to import gold.

The abolition of the Gold Control Act in 1992, allowed large export houses to import gold freely. Exporters in export processing zones were allowed to sell 10 percent of their produce in the domestic market.

In 1993, gold and diamond mining were opened up for private investors and foreign investors were allowed to own half the equity in mining ventures.

In 1997, overseas banks and bullion suppliers were also allowed to import gold into India. These measures led to the entry of foreign players like DeBeers, Tiffany and Cartiers into the Indian market. In the 1990s, the number of retail jewellery outlets in India increased greatly due to the abolition of the Gold Control Act.

This led to a highly fragmented and unorganized jewellery market with an estimated 100,000 workshops supplying over 350,000 retailers, mostly family-owned, single shop operations.

In 2001, India had the highest demand for gold in the world; 855 tons were consumed a year, 95% of which was used for jewellery.

Structure of the Industry:

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 jewellers along with 6,000 diamond processing players and 8,000 diamond jewellers.

The value chain of the industry starts from sourcing and mining of the metals and extends to jewellery retail. While India is not a major miner of precious metals and stones, the country's inexpensive and well skilled workforce makes it a world leader in processing of diamonds. The country's jewellery retail sector is also expected to evolve with a shift among consumers towards branded jewellery, driven by greater quality consciousness.

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India was one of the first countries to start making fine jewellery from minerals and metals and even today, most of the jewellery made in India is hand made. The industry is dominated by family jewellers, who constitute nearly 96 per cent of the market. The country at present has a small but growing organized sector. Organised players such as Tata with its Tanishq brand, have, however, been growing steadily to carve a 4 per cent market share.

India was the first country to introduce diamonds to the world, the first to mine, cut and polish them as well as trade them. The cutting and polishing of diamonds and other precious stones is one of the oldest traditions in India and the country has earned a considerable reputation both in the domestic and international markets for its skills and creativity.

In the global diamond market today, Indian diamonds account for 55 per cent share in value terms, 80 per cent share in caratage (weight) terms and 90 per cent share in volume terms. Today there is a ready availability of an entire range of diamonds in nearly every size, quality and cut.

India offers the twin advantages of skilled labour and low cost in the area of gemstone processing. India's significance in the global gems and jewellery industry can be largely attributed to its strength in diamond processing.

The export industry mainly comprises of small-to-large units based in various special economic zones (SEZs), export processing zones (EPZs) and in Electronics Exports Processing Zone (SEEPZ).

Certification of Gems and Jewellery:

The Gems & Jewellery Promotion Council is India's certification authority. The government's Central Board of Excise and Customs has banned the import or export of rough diamond shipments, which are not accompanied by a Kimberley Process certificate launched in Switzerland. Certification for quality diamonds and jewellery has boosted exports and has resulted in greater acceptance of Indian products in the world market.

Regulating Bodies:

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The Gem and Jewellery Export Promotion Council (GJEPC): This is the apex body of the gem and jewellery trade in India, which was set up in 1966 for promoting precious stones and jewelry exportations. With strength of 6,500 members spread all over the country, the Council is primarily involved in introducing the Indian gem & jewellery products to the international market and promotes their exports. To achieve this, the Council provides market information to its members regarding foreign trade inquiries, trade and tariff regulations, rates of import duties, and information about jewellery fairs and exhibitions. The following initiatives have been taken by the Gem and Jewellery Export Promotion Council in order to enhance competitiveness such as:

- Preparation of a medium term exports strategy for various sectors including gems and jewellery by the Ministry of Commerce.
- Exploring the possibility of direct procurement of rough diamonds from mining countries.
- Promotion of Indian diamonds and jewellery abroad through advertisements, publicity and participation in international fairs, buyer-seller meets and direct approach to market retailers.
- Market study through experts in the field to identify new markets.
- Promotion of export of 'hallmark' jewellery from India to assure foreign customers of quality and purity of jewellery made in India.

The Gem and Jewellery Trade Council of India (GJTCl): This council is established with the main aim of boosting the gem and jewellery trade of India. It plays an important role in showcasing the Indian gem and jewellery to the international market. It is a council formed to enhance & boost the jewellery trade of India by resolving various issues of the trade by escalating various to the relevant high authorities. It also indulges itself in disseminating latest information to its jeweler-members through a monthly newsletter, various educative & trade-motivational events such as seminars, workshops, exhibitions, festivals etc.

The Bureau of Indian Standards: This National Standards Body of India is responsible for hall marking of gold jewellery and certification of its purity.

Market Trends:

The Indian jewellery market is one of the largest in the world, with a market size of \$13 billion. It is second only to the US market of \$ 40 billion and is followed by China at \$11 billion. The gold jewellery market is growing at 15 per cent per annum and the diamond jewellery market at 27 per cent per annum.

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As per the recordings of the Gems and Jewellery Export Promotion Council (GJEPC), the total gems and jewellery exports from India stood at US\$ 20.88 billion for 2007-08.

The United States and Hong Kong were the largest importers of gems and jewellery from India, with a share of 26 per cent each, followed by UAE at 21 per cent.

Gold jewellery exports increased from US\$ 5.2 billion in 2006-07 to US\$ 5.6 billion 2007-08.

India is the largest consumer of gold in the world, followed by China and Japan. India consumes nearly 800 tonnes of gold that accounts for 20 per cent of world gold consumption, of which nearly 600 tonnes go into making jewellery.

India is the largest diamond cutting and polishing centre in the world - the Indian diamond cutting and polishing industry enjoys 60 per cent value share, 85 per cent volume share and 92 per cent share of the world market in terms of number of pieces. In other words, nearly 9 out of 10 diamonds sold worldwide are cut and polished in India.

With its cut and polished diamonds, colored gemstones, gold jewellery, pearls, non-gold jewellery and fashion jewellery, India accounts for almost 50% of the international market. The gems and jewellery sector contributes nearly 55% of the world's net exports of cut and polished diamonds in value, 90% in terms of pieces and 80% in terms of carats. Every 11 of 12 diamonds sold around the globe are processed in India, irrespective of where these are mined.

Even though India does not contribute much to the world market in terms of rough diamonds -- India exported rough diamonds worth only US\$ 566 million in 2007-08 -- it is the world leader in cutting and polishing of diamonds, with exports worth US\$ 14.18 billion in 2007-08.

In terms of carat, India's share in the diamond sector is about 80% of the world market. Employing over 90% of the global diamond industry workforce, India also accounts for 90% of the volume of diamonds processed in the world.

Government Initiatives:

Over the years the Indian Government has taken the following measures to boost the gems and jewellery sector:

- In 2004-05 the government lowered import duty on platinum from US\$ 13.82 per 10 gm to US\$ 5.03 and exempted rough coloured precious gems stones from customs duty at the first stage itself, instead of claiming reimbursements later.
- Rough, semi-precious stones are already exempt, a move aimed at further promoting the exports of studded jewellery and platinum jewellery.
- Import of gold of 8 carat and above allowed under the replenishment scheme subject to the import being accompanied by an Assay Certificate specifying the purity, weight and alloy content.
- Setting up of SEZs and gems and jewellery parks to promote investment in the sector.
- In May 2007, the government abolished import duty on polished diamonds.
- Cutting and polishing of gems and jewellery treated as manufacturing for the purposes of exemption under Section 10A of the Income Tax Act.

In the New Annual Supplement to Foreign Trade Policy (2004-2009) announced on April 19, 2007, the Government has extended the following facilities to this sector:

- Service Tax on services (related to exports), which are rendered abroad have been exempted.
- Re-import of Diamonds & Jewellery (either in complete or partial lot) exported on consignment basis have been allowed.
- In the light of increase in global prices of precious metal, duty free entitlement for consumables for export of rhodium plated silver jewellery has been increased to 3 per cent.
- To reduce the transaction cost for the diamond sector, testing facility at International Diamond Laboratory (IDL), Dubai, has been incorporated in the list of laboratory/certifying agencies.
- Duty free import entitlement of tools, machinery & equipment has been allowed. For metals other than gold, platinum, it will be 2 per cent and for gold and platinum, it will be 1 per cent of FOB value of exports during the previous financial year.

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- Categorization of exporters as One to Five Star Export Houses has been changed to Export Houses and Trading Houses with rationalization and change in export performance parameters.
- In addition, the Government has decided to make gold hallmarking mandatory from January 1, 2008. It has also made the import of polished diamonds completely duty free. Also, special economic zones dedicated to gems and jewellery are to come up in Surat, Kolkata, Goregaon, Dhulia and Hyderabad.
- The Government is also set to unveil the new mining policy to make it easier for foreign and domestic firms to invest in the exploration and mining of diamonds, gold and other metals. Currently, India produces merely 0.4 per cent of its gold consumption despite having 9 per cent of global gold reserves.

Budget 2008-09:

The following measures were announced for the gem and jewellery sector in the current budget:

- Reduction in net profit rate from 8% to 6% for all assesses engaged in diamond manufacturing and trading sector under Benign Assessment procedure;
- Import duty exemption on Rough Cubic Zirconia;
- Reduction of import duty on Cut and Polished Cubic Zirconia and Rough Coral from 10% to 5%.

Foreign Direct Investment Policy:

- 100% FDI is allowed under automatic route for exploration and mining of minerals other than diamonds and precious stones.
- For exploration and mining of diamonds and precious stones FDI is allowed up to 74% under automatic route.
- For exploration and mining of gold and silver and minerals other than diamonds and precious stones, metallurgy and processing, FDI is allowed up to 100% under automatic route.

Exports and Imports:

The jewellery industry in India contributes over 15% of the country's total exports and provides employment to 1.3 million people directly and indirectly.

In 2006-07 India's gem and jewellery industry recorded exports of US\$ 17.1 billion and exports of diamond merchandise alone touched US\$ 9.77 billion.

In 2007-08, exports recorded a 22.27 per cent growth touching US\$ 20.88 billion with diamonds accounting for 70.59 per cent of the total exports, gold jewellery accounting for 26.91 per cent, coloured gem stones and others accounting for 1.32 per cent and 1.16 per cent respectively.

The gem and jewelry sector accounted for 13.41 percent of India's total merchandise exports in 2007-08.

In comparison, total imports of gem and jewelry provisionally rose to \$18.5 billion in 2007-08, growing 32.5 percent from 2006-07.

The 2008-09 fiscal also started on a positive note, with the gems and jewellery exports rising by nearly 17 per cent to US\$ 9.05 billion during April-August 2008, compared to US\$ 7.74 billion in the corresponding period last year. Significantly, rough diamond exports stood at US\$ 386 million while cut and polished diamond exports increased by 22 per cent to US\$ 6.5 billion.

India's gem and jewellery exporters rely a lot on clients of the US, China, Russia, Commonwealth of Independent States (CIS), and the UAE for a major portion of their revenue. While the US and Hong Kong account for 26 percent of total gem and jewelry exports, the UAE account for 21 percent, Singapore 9 per cent and Belgium 8 Per cent.

Composition of Exports:

- **Gold Jewellery Exports:** This segment registered a growth of 8.07 per cent with the exports of US\$ 5622.41 million during April 2007-March 2008 as against US\$ 5202.48 million during April 2006-March 2007.
- **Cut and Polished Diamonds:** The share of this segment in the exports stood at US\$ 14180.28 million (provisional) for the period April 2007-March 2008.

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- Coloured Gemstones: This segment accounted for exports worth US\$ 276.42 million (provisional) for the period of April 2007-March 2008. This segment grew by 12.15 per cent in April 2007-March 2008

The major destinations for Indian jewellery exports have been the United States, UAE, Hong Kong, Singapore, Belgium and Israel.

NET EXPORTS OF GEMS & JEWELLERY

| ITEMS | April-September-08 (Provisional) | April-September-07 | % Growth / decline over previous Year |
|---|-------------------------------------|--------------------|---------------------------------------|
| | US \$ in Million | US \$ in Million | US \$ |
| Cut & Pol Diamonds * (Quantity in Lakh Carats) | 8041.93 | 6613.42 | 21.60 |
| Gold Jewellery - D. T. A. | 1025.82 | 1255.26 | -18.28 |
| SEZ / EPZ | 1254.53 | 1076.19 | 16.57 |
| Total | 2280.35 | 2331.45 | -2.19 |
| Coloured Gemstones | 149.91 | 129.08 | 16.14 |
| Others | 105.16 | 119.62 | -12.09 |
| Net Exports | 10577.35 | 9193.57 | 15.05 |
| Exports of Rough Diamonds (Quantity in Lakh Carats) | 461.68 | 262.88 | 75.62 |

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|----------------------|-----------------|----------------|--------------|
| Total Exports | 11039.03 | 9456.45 | 16.74 |
|----------------------|-----------------|----------------|--------------|

NET IMPORTS OF GEMS & JEWELLERY

| ITEMS | April-September-08 (Provisional) | April-September-07 | % Growth / decline over previous Year |
|--|-------------------------------------|--------------------|---------------------------------------|
| | US \$ in Million | US \$ in Million | US \$ |
| Rough Diamonds (Quantity in Lakh Carats) | 5941.78 | 4987.09 | 19.14 |
| Gold Bar | 1110.45 | 1362.11 | -18.48 |
| Others | 386.85 | 99.63 | 288.29 |
| Total | 7439.07 | 6448.82 | 15.36 |
| Cut & Polished Diamonds | 3968.20 | 2149.61 | 84.60 |
| Others | 252.76 | 262.80 | -3.82 |
| Total Imports | 11660.03 | 8861.24 | 31.58 |

Key Brands in the Indian Jewellery Segment:

The following are some of the major brands in the Indian Jewellery segment:

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Gili: In 1994, Gili Jewellery was established as a distinct brand by Gitanjali Jewels, soon after the abolition of the Gold Control Act by the Indian government. Gili offered a wide range of 18-carat plain gold and diamond-studded jewellery.

Tanishq: In 1984, Questar Investments Limited (a Tata group company) and the Tamil Nadu Industrial Development Corporation Limited (TIDCO) jointly promoted Titan Watches Limited (Titan). Initially involved in the watches and clocks business, Titan later ventured into the jewellery businesses and started its jewellery division under the Tanishq brand.

Carbon: In early 1991, the Bangalore based Peakok Jewellery Pvt. Ltd., (Peakok) was incorporated. In 1996, within the Peakok fold a new brand of 18-carat gold-based jewellery called Carbon was launched.

Oyzerbay: Oyzerbay which began operations in March 2001 seeks to build a national brand in the jewellery industry in India and aspires to be the largest branded jewellery company in the country with a chain of 100 stores and several hundred-distribution points.

Trendsmith: Mumbai-based Tribhovandas Bhimji Zaveri (TBZ), which had been in the jewellery business since 1864, saw tremendous scope in the branded segment and opened its new concept store 'Trendsmith' in Mumbai in December 2001.

Jewellery Retail Sector:

The Indian gems and jewellery market continues to be dominated by the unorganized sector. There are over 2.5 million jewellery shops in India and most of them are family run. However, with the Indian consumer becoming more aware and quality conscious, branded jewellery is becoming very popular and the market for branded jewellery is likely to be worth US\$ 2.2 billion by 2010. With an increasing number of jewellery houses entering the branded jewellery sector, retail of jewellery is becoming organized. Moreover, the government allows 51 per cent foreign direct investment in single brand retail outlets, attracting both global and domestic players to this sector.

A booming market has in recent years attracted a large number of players to the Indian gems and jewellery retail sector:

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- Reliance Retail is planning an aggressive entry into the jewellery retail market. It will open between 400 to 500 jewellery retail outlets across the country.
- Damas Jewelry, one of the world's leading jewelry retailer entered India in 2003 with a 50-50 joint venture with Gitanjali Gems Ltd. It is one of the largest jewellery retail outlets in the world and is adding 16 new stores to the 12 stores it currently has in India.
- Swarovski, the global crystal goods manufacturer and marketer, plans to set up 30 stores by 2009, up from the current 13.
- The Gitanjali Group has bought 'Nakshatra', the premium brand of jewellery promoted by Diamond Trading Company (DTC)
- Mumbai-based Vardhaman Developers plans to build four more jewellery malls in the city.
- Dubai-based Joy Alukkas has recently opened its largest showroom in Chennai.
- Viswa and Devji Diamonds, a partnership between the Indian group and the top jewellery retailer in UAE, opened its first diamond retail outlet.
- Gitanjal Gems Ltd opened its first luxury jewellery mall in Gurgaon, where a number of international brands have started their retail business.
- Gold Souk India has plans for opening 100 Souks in 100 months.

Localization of the Jewellery Industry:

The hub of India's jewelry industry is Mumbai that receives majority of the country's gold and rough diamond imports. However, most of the diamond processing is undertaken in the neighboring state of Gujarat, (primarily in Surat, Bhavnagar, Ahmadabad and Bhuj) and in Rajasthan (Jaipur). But Mumbai does have a considerable number of modern semi-automatic factories and laser-cutting units, majority of which are located in the special economic zone.

Diamonds are mined only at Panna in the Indian state of Madhya Pradesh by the National Mining Development Corporation.

India has significant reserves of gold, diamond, ruby and other gem stones. Key states with gem stone reserves and mining potential are Maharashtra, Madhya Pradesh, Orissa, Chattisgarh, Bihar and Andhra Pradesh.

Orissa has deposits of ruby and has about 20 varieties of various gemstones such as rhodolite, garnet, aquamarine etc. Andhra Pradesh has gold and

diamond bearing areas, as well as occurrences of semi-precious and abrasive stones spread over different districts.

Future of the Indian Jewellery Market:

- India's growing importance in the global jewellery market is only expected to increase in the future with total estimated jewellery sales of US\$ 21 billion by 2010 and US\$ 37 billion by 2015.
- Diamond jewellery consumption in India is also estimated to jump by 78 per cent in 2010.
- Branded jewellery is likely to be the fastest-growing segment in domestic sales. The sector is expected to grow at 40 per cent annually to touch US\$ 2.2 billion by 2010.
- Indian diamond jewellery industry is the third largest consumer of polished diamonds after USA and Japan. Diamond jewellery consumption is likely to jump to nearly 80 per cent in 2010 and over 95 per cent between 2010 and 2015.
- Various government incentives coupled with private sector initiatives are projected to drive the sales of Indian gems and jewellery sector at a CAGR of around 14% from 2007-08 to 2010-11.
- The organized gems and jewellery sector is anticipated to grow rapidly in near future, accounting for nearly 8% of the total gems and jewellery market by 2009-10.
- Various factors like cheap labor cost, better designs and manufacturing practices, are making the country an attractive destination for cutting and polishing of diamonds.