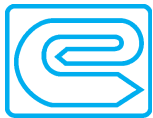


EXIM BANK: RESEARCH BRIEF

Indian Gems and Jewellery: A Sector Study



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Introduction

India has the distinction of being one of the first countries to introduce diamonds to the world. The country was also one of the first countries to mine, cut, polish, and trade in diamonds. The two major segments of the gems and jewellery business in India are gold and diamond jewellery. While a predominant portion of gold jewellery manufactured in India is for domestic consumption, a predominant portion of imported rough, uncut diamonds are processed in India and exported, either in the form of polished diamonds, or in the form of finished diamond jewellery. With an estimated consumption of 713 tonnes of gold during the year 2008 (including jewellery consumption of 501 tonnes), India is one of the largest consumers of gold in the world.

Status of Gold, Diamond, Gems Industry in India

The total resources of gold in the country as on April 2005 were estimated at 390.28 million tonnes. Out of these, 19.25 million tonnes were under the reserve category, and the balance 371.03 million tonnes were under the resources category. Besides, the total resources of gold ore of placer type in the country were estimated at 26.12 million tonnes. Karnataka had the largest reserves of gold in India followed by Rajasthan and Kerala. Although there have been significant ore resources, India's gold production has shown a decline over the years. India has been the largest consumer of

Export Performance of Indian Gems and Jewellery Industry			
	2006-07	2007-08	2008-09
Exports	15,983.57	19,691.58	28,411.38
Growth Rate	--	23.2	44.3
Comparative Export Performance in April – September 2008 and April – September 2009			
	2008	2009	Growth (%)
April – September	17,387.66	13,608.40	-21.7
April	3,074.25	1,824.42	-40.7
May	2,969.89	2,011.60	-32.3
June	3,063.81	2,298.99	-25.0
July	2,635.75	2,443.92	-7.3
August	2,842.69	2,386.83	-16.0
September	2,801.27	2,642.65	-5.7

Source: Ministry of Commerce and Industry, Government of India

gold jewellery in recent times, and in the year 2008, consumption of gold jewellery in India was estimated to be 501 tonnes, accounting for 23% of world demand.

Traditionally, India has been a hub for diamond cutting, gem cutting, and polishing and processing. According to USGS data, diamond production (gem and industrial) in India in the year 2007 was 55 thousand carats, and has remained more or less stagnant over the years. As per United Nations Framework Classification (UNFC) system, as on 1.4.2005, India had total resources of around 4.5 million carats of which 1.2 million carats was reserves. By grades, about 17% of diamond resources are of gem variety, 18% are of industrial variety, while bulk of the resources (65%) is placed under unclassified category. Andhra Pradesh

accounts for 40% of diamond resources, followed by Madhya Pradesh (32%), and Chhattisgarh (28%).

Although traditional Indian gemologists have identified around 84 precious and semi-precious stones, nine stones, namely: Ruby, Emerald, Pearl, Diamond, Red coral, Zircon, Blue sapphire, Yellow sapphire, and Cat's Eye, form the 'Navratnas' or nine gems. As per United Nations Framework Classification (UNFC) system, as on 1.4.2005, India had total resources of 5,271 kilograms of ruby, 450 kilograms of sapphire and 57.6 million carats of garnet.

Export Performance of Indian Gems and Jewellery industry

There had been a loss of market for gems and jewellery exports due to recession and global economic slowdown. During 2007-08, there was a growth in gems and

jewellery exports by 23%, over the previous year. The growth trend continued even in 2008-09 during which the exports showed a growth of 40.9% over the previous year. However, during the period April-September 2009-10, due to economic slowdown, the demand for gems and jewellery shrank across the world, which resulted in export slowdown in the first six months of 2009-10, from April 2009 to September 2009.

Challenges and Strategies

Challenges

Unorganised Sector

Being an unorganized sector hampers the ability of Indian gems and jewellery industry to emerge as a world-class supplier. According to a FICCI study, the gold processing industry has around 15,000 players, with only around 80 units having revenues over US \$ 5 million. India is also home to around 450,000 goldsmiths, over 100,000 gold jewellers along with about 6,000 diamond-processing players and 8,000 diamond jewellers.

Impact of Recession

There had been a loss of market for gems and jewellery exports due to recession and global economic slowdown. During the period April-September 2009-10, due to economic slowdown, the global demand for gems and jewellery shrank, which resulted in export slowdown for India. Following the economic slowdown, asset price devaluations, job losses and decrease in disposable income have happened, along with escalation in gold prices, which have changed the consumption pattern of gems and jewellery. Further the economic slowdown has also affected the consumer buying pattern, with growing demand for single-line jewellery, low-carat jewellery, and gems-studded jewellery.

Rise in Prices

As mentioned earlier, the prices of precious metals, especially gold and silver, have been witnessing steep increase, since the last few years, which has been changing the buying pattern of consumers. During the period

December 2008- December 2009, the price of gold per ten grams, has increased from Rs 13,445 to Rs 16,870, an increase of 26%. Even though the price of silver had shown a decline after February 2009, it again started rising after April 2009. From Rs 17,847 per kg in December 2008, the silver price increased to Rs 27,430 per kg in December 2009.

Possible Threats from China and Other Countries Producing Diamonds

Although India currently enjoys dominance in the world's cut and polished diamond market, China may emerge as a rival in the long-term, mainly because of the availability of cheap labour, growing domestic demand, and also the improvement in the quality of workmanship in the country. It may be added that increasing number of diamond processors are setting up their facilities in China due to these reasons. Also, there has been growing pressure in major diamond producing countries in Africa, like Botswana, Namibia and South Africa, to gain further economic benefits from diamond value chain, seeking investments in cutting and polishing industry. Such developments may affect the prospects of India.

Low level of Technology Absorption

Utilization of hi-tech, speedy and efficient machinery and software has led to the gradual replacement of traditional / manual methods of polishing, manufacturing and designing of gems and jewellery in the global arena. However, such technology absorption is relatively low in Indian gems and jewellery industry, due to the small size, and unorganized nature of majority of the players in this industry.

Enhancing Skill Development

Non-availability of skilled workers is often cited as one of the major reasons for the inability of the players in this industry to scale up their operations. Also, mere absorption of technology may not be helpful, without a proper blend of manual labour with machinery, to provide ethnicity to the end-products. Usage of semi-skilled and unskilled workforce in operation of such

high-end machines may result in significant under-utilization of the machinery / technology, and may, at times, cause losses in operations. Supply of craftsmen / artisans that come through generations need to be complemented by fresh talents, trained in a professional manner, to have access to wider talent pool.

R&D and Product Development

Another major challenge faced by the industry is the low level of R&D intensity, and facilities for undertaking R&D and product development. Proper R&D solutions would help in improving product quality, reducing wastage, introducing new designs and concepts, and innovation in supply chain management and marketing. The gap between hi-end machines and unskilled labour can also be reduced with innovative R&D solutions.

Strategies

Branding of Jewellery

Branding of jewellery plays a very important role in the jewellery market as it assures consumers that the products are of certain quality, durability, and conform to several social, environmental and durability standards. Brand promotion is therefore one of the best modes of market penetration. In order to gain market share, branded jewellers may have to come up with designs that customers want, and win the trust and confidence of consumers by hallmarking and demonstrating the purity of the gold used by them. To compete with traditional players, branded players may also find some ways to differentiate themselves from others. In addition, branded players require focused advertising and astute salesmanship to compete with traditional jewellers.

Hallmarking of Jewellery

Hallmarking is the accurate determination and official recording of the proportionate content of precious metal in jewellery. Government of India has been protecting the interests of consumers from adulteration, and irregular metal quality, and launched the Hallmarking Scheme through

Bureau of Indian Standards. However, it is difficult to make Hallmarking of gold jewellery mandatory across the country due to insufficient number of certification centres. At present, there are over 100 BIS-recognised assaying and hallmarking centres in India, which are centred around Tier – 1 and Tier – 2 cities. It is proposed that India may consider expanding the network of hallmarking infrastructure across the country, and help penetrate quality products even in rural areas. India may also consider becoming a member of International Hallmarking Convention, and derive the benefits of such Convention.

Increasing Market Presence of Platinum Jewellery

With the gold prices increasing at record levels, consumers are showing interest in ornaments made from other metals, like platinum and palladium. The fall in prices of platinum has also triggered the demand for platinum jewellery across the world, including India. Indian jewellers need to diversify their product range and concentrate more in the manufacture of platinum-based jewellery. Leading retail jewellers should also add exclusive space for platinum jewellery in their stores.

Change in Product Portfolio

As the recession is reducing the demand for jewellery products worldwide, it is necessary to diversify the export product portfolio, and concentrate more on lesser-priced jewellery, such as imitation, fashion or costume jewellery. Indian gems and jewellery industry may also diversify the product portfolios on the lines of the change in perception of the consumers. Players should also have desire for product innovation to catch-up with the change in consumer trends.

Continuous Skill Development

Human resource is one of the critical factors for the gems and jewellery industry, as the industry is labour-centric. Thus, the players need to constantly upgrade the skills of the workmen, through training and retraining strategies, to enhance their productivity. Some of the focus areas for imparting skill-upgradation include: technology interface of design and product development, innovation in

manufacturing process and reduction of wastage, standardization and quality control, and international networking and marketing. In addition to firm level strategies, the industry also needs to address the challenge of skill development collectively. The industry may establish close linkages with the existing learning centres, and help them in imparting skills / training that are needs of the hour. It is also important for the players to accomplish greater degree of professionalism and establish appropriate organization structure that would attract and retain best talent in the industry.

Technology Upgradation

Players in this industry need to adopt latest technology, including the ICT interface in all aspects, starting from mining, cutting and polishing, to fabrication and marketing. Technological solutions are available for several of the challenges faced by the gems and jewellery industry, viz., innovations in designs (through CAD/CAM machinery), quality and finish of products (through infrared, photo-typing, etching, wax-casting), cost control in process and reduction of wastage (laser cutting, hollow-tube processing). Imparting of technological solutions may reduce cost and time, which may not be feasible under conventional methods. Technology also helps the fabricators to churn-out the new-design products in a much speedy way.

Establishing Diamond Bourses

At present, one diamond bourse, Bharat Diamond Bourse, has been established in Mumbai. Nevertheless, the traders have to visit Antwerp, Israel, Hong Kong and other locations to buy and sell rough and polished diamonds. Establishment of more diamond bourses will give a major fillip to India to emerge as an international diamond trading hub and will also make trading in diamonds easier for the players in India. Government of India has already announced establishing more diamond bourses to make the country an international trading hub to boost the gems and jewellery exports. These diamond bourses are expected to provide a single

platform for traders and it would help in making India a trading centre for diamonds.

Increase in Exploration Activities

Resource augmentation and gold production have not been significant in India. As per United Nations Framework Classification, total resources (reserves and remaining resources) of gold ore (primary) in India, as on April 1, 2005, were estimated at 390.28 million tonnes, of which only 19.25 million tonnes are placed under reserve category, and the rest, 371.03 million tonnes, under resources category. India thus requires increase in exploration activities with improvements in technology and know-how. According to a report by the Planning Commission, Government of India, the mining sector requires improved method of narrow-vein-mining for achieving full economic benefits. Introduction of small-scale mining culture in the gold industry is also another requirement with adoption of modern gold extraction technology. Cluster mining of small gold deposits may also deserve consideration and should be encouraged. Efforts should be made to increase the production of rough diamonds from India to partly meet the requirement of Indian diamond cutting and polishing industry.

Enhancing Visibility through more Participation in International Exhibitions

Continuous participation in international trade shows and jewellery exhibitions is very important for the Indian gems and jewellery industry; such strategy would help in projecting the industry as a player in entire jewellery value chain, from cutting, polishing, fabricating of wide variety of plain and stone-studded jewellery. Participation in international exhibitions would also help in establishing new industrial links for the Indian gems and jewellery industry, and would also pave the way for the industry to develop further business links to enhance the level of their innovations in designs and technology.

Conclusion

World gems and jewellery industry is on the verge of transformation due to both

supply-side and demand-side factors. Some of the recent trends in the global gems and jewellery industry include: fragmentation of rough diamond supply positions; emergence of new mining areas; beneficiation movement in mining countries, and ever-growing raw material prices. At fabrication level, fashion and styles have been changing significantly; the ratio of cost of raw materials to sales has been coming down squeezing the profit margin of the fabricators. There has been volatility in raw material prices; the global slowdown led to low capacity utilization in this industry bringing down the margins in the jewellery manufacturing. In some countries, including India, some of the processing units have been partially shut down due to slackening demand. As a result, the value chain in the gems and jewellery industry may witness consolidation; only select major players are likely to cope with the trends and sustain the competitive pressures.

It is expected that the spike in gold and silver prices might change the consumer preferences, as also impact their demand pattern. The growing

consumer sophistication, decline in investment-driven (jewellery) demand, and competition from other luxury goods are also likely to impact the demand pattern of gems and jewellery. Further, the consumer awareness and consciousness, generated through the vigilant measures adopted by various national Governments, are expected to drive the demand for branded and hallmarked jewellery. At national level, India has been adopting various strategies to cope with the global trends in gems and jewellery business. World Gold Council and the Indian gems and jewellery industry have jointly introduced international jewellery designing competitions among the Indian artisans to generate awareness about the skills of Indian artisans in the global market, as also to expose Indian artisans to new design developments emerging around the world. There have been initiatives taken by many designing centers to train Indian jewellers in international manufacturing and designing skills. This is expected to enhance demand as well as sales for the Indian gems and jewellery industry.

Indian gems and jewellery industry is increasingly building its ability to produce full range of sizes and qualities of stones, utilizing not only the low-cost and abundant workforce, but also advanced technologies. The industry has been seeking further growth through processing of larger size stones and manufacture of diamond jewellery. Both the Government and the gems and jewellery industry have recognized the use of IT in diamond clusters in order to enable seamless flow of information between the functional areas, right from job contractors to small / mid-sized firms, to large, integrated units. The IT interface would also provide the necessary platform for firms to scale up their operations. While several such measures have been taken, at firm-level, industry-level, and Government-level, there exists still a need to strengthen the position of India in the global market place through a concerted strategy, addressing the challenges of raw-material sourcing, technological infusion at processing stage, adoption of dynamism in design and product development, and sustainable market entry approach.

Exim Bank's Role in Supporting Indian Gems and Jewellery Industry

Exim Bank of India seeks to create an enabling environment to promote two-way transfer of technology, trade and investments and operates a wide range of lending, service and support programmes. The Bank has a variety of loan products to cater to the financing requirements of enterprises. The credit facilities are available for financing at all the stages of export cycle of Indian firms. The Bank's Lines of Credit (LOC) extended to commercial banks, financial institutions, regional development banks, and entities overseas serve as a market entry mechanism to Indian exporters and provide a safe mode of non recourse financing option to Indian exporters. Apart from LOC, the Bank offers buyer's credit and supplier's credit for exports on deferred payment terms. These facilities help companies, especially the SMEs, to offer competitive credit terms to the buyers and to explore new geographical markets. The bank has extended supplier's credit, pre

shipment credit, post shipment credit and foreign currency packing credit (FCPC) to its clients in the gems and jewellery sector.

Exim Bank has signed a Memorandum of Understanding (MOU) with the Indian Diamond Institute (IDI) which enables the development of human resources through professional training and hence be supportive of the export efforts of the industry. The Bank has provided grant to IDI for upgrading LRS (Laser Raman Spectroscopic Machine) equipment, and thereby help-enable IDI to provide training to carry out in-depth study of all types of gems. The MOU also enables both the institutions to exchange literature, data, information and research output on the gems and jewellery industry, and also facilitate the exchange of foreign experts visiting the two institutions, and in organizing their respective training programmes.

The contents of the publication are based on information available with Export-Import Bank of India and on primary and desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupee are referred in crore and lakhs:

1 crore = 10 million

1 lakh = 100 thousand

Publication is available with:
Dharmendra Sachan
Chief Knowledge Officer

EXPORT-IMPORT BANK OF INDIA
Centre One Building, Floor 21,
World Trade Centre Complex,
Cuffe Parade, Mumbai - 400 005, India.
Phone : +91 22 2218 0379
Fax : +91 22 2218 3070
E-mail : dharmendra@eximbankindia.in
Website : www.eximbankindia.in

Contact Numbers : Ahmedabad : 2657 6852, Bangalore : 2558 5755, Chandigarh : 2641910, Chennai : 2522 4714, Guwahati : 246 2951, Hyderabad : 2330 7816, Kolkata : 2283 3419, Mumbai : 2282 3320, New Delhi : 2332 6625, Pune : 2645 8599
Dakar : (221) 338232849, Dubai : (971) 43637462, Durban : (2731) 5846118, London : (44) 2073538830, Singapore : (65) 653 26464, Washington D.C. : (1) 2022233238