

**Short term view looks promising for gems and jewellery industry**

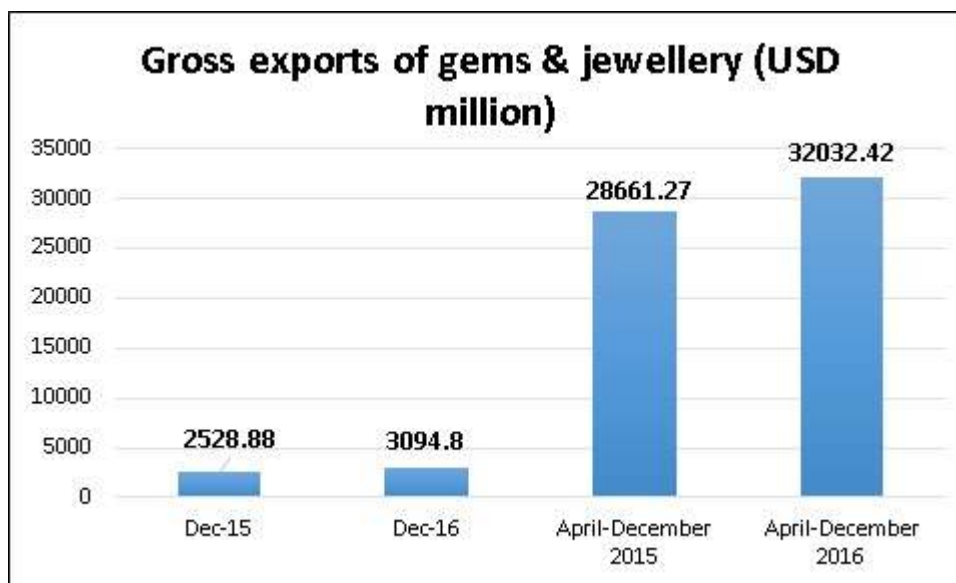
MAR 07, 2017

The gems and jewellery industry occupies an important position in the Indian economy, contributing around 6-7 per cent of the country's GDP growth. It is a leading foreign exchange earner and also 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, while the balance comprises of fabricated studded jewellery that includes diamond and gemstone studded jewellery. It is one of the focus sectors in the 'Make in India' initiative of the government.

The industry is getting more competitive in the world market due to its low cost of production and availability of skilled labour. The industry has a worldwide distribution network, which has been established over a period of time. India has set up more than 3,000 offices worldwide for promotion and marketing of Indian diamond. The gem & jewellery exports account for around 13-17% of India's total exports in the last few years. The government has viewed the sector as a thrust area for export promotion. The industry is dominated by family jewellers, who constitute nearly 96 per cent of the market. The industry currently employs around 4.5 million skilled and semi-skilled workers across India and is expected to provide employment opportunities to more than 8.23 million persons by 2022.

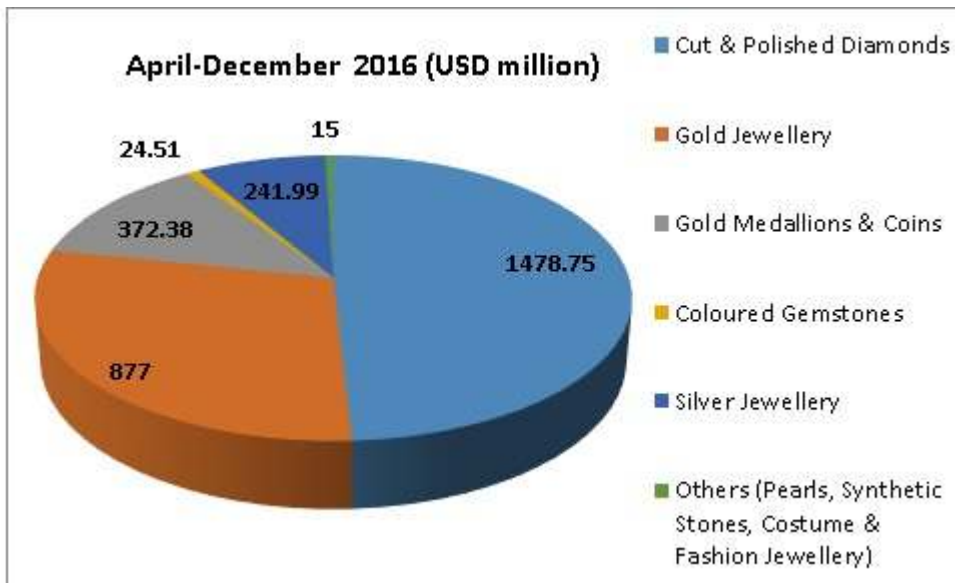
**Exports:**

The country's gross exports of gems and jewellery for the month of December 2016 reached to \$3094.80 million, showing a growth of 22.38% as compared to exports worth \$2528.88 million for the same period of the previous year. Gross exports for April-December 2016, were at \$32,032.42 million, 11.76% higher than exports of \$28,661.27 million achieved in the same period of the previous year. Exports have started recording positive growth from the month of September, which can be attributed to high demand of diamond jewellery from US, China and the Middle East.



India exports about \$21 billion worth for polished diamonds to the world including US. Cut and polished diamonds continue to be the largest component of the exports under the Gems & Jewellery segment. The rise in export during the period of April-December 2016 was mainly supported by increase in exports of cut and polished diamond. The increase in the polished diamonds and jewellery exports could be attributed to the American consumers.

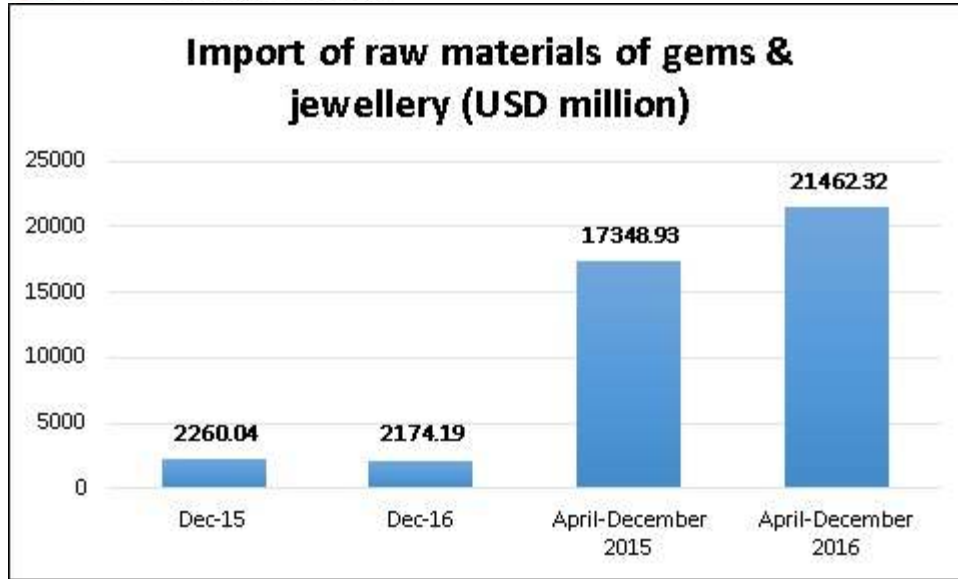
Overall gross exports of cut & polished diamonds amounted to \$1,478.75 million in the month of December 2016, a growth of 22.51% as compared to \$1,207.06 million worth of exports for the same period of the previous year. Similarly, the export of Gold Jewellery increased by 32.45% to \$877.00 million in December 2016 as compared to \$662.12 million in the same period of the previous year.



### Import:

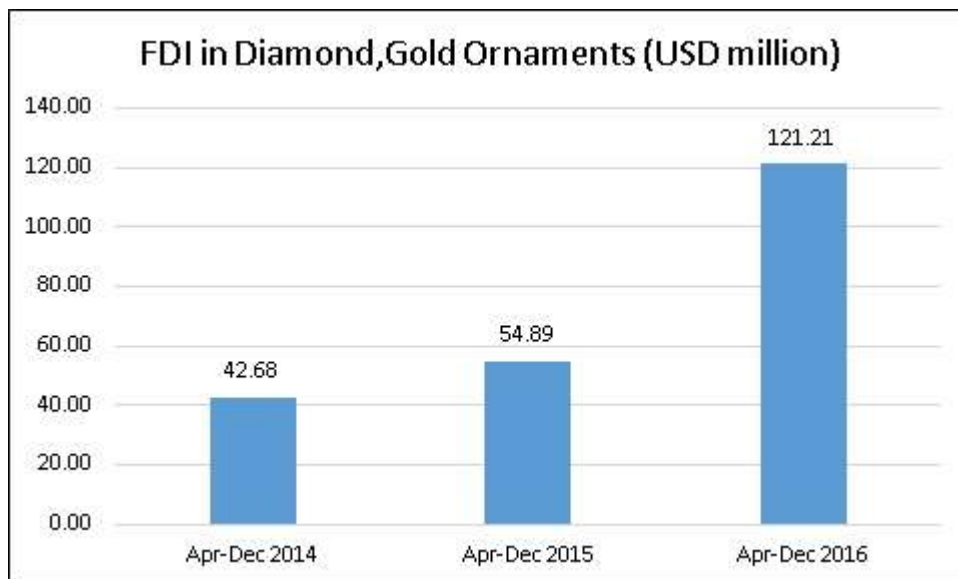
The overall gross imports of gems and jewellery products for December 2016 stood at \$2,174.19 million, marking a decline of 3.80% as compared to imports of \$2,260.04 million for December 2015. For the first three quarter of FY 2016-17, the overall gross imports of gems and jewellery products touched \$21,462.32 million, marking an increase of 23.71% as compared to imports of \$17,348.93 million for the same period of the previous year.

While the gems and jewellery import remained strong in first two quarter of FY17 on expectation of better festival demand and recovery in rural demand, the government's move to scrap 500 and 1,000 rupee banknote adversely impacted the import in last month of calendar year.



**FDI in the industry:**

India's Gems and Jewellery sector has been contributing in a big way to the country's foreign exchange earnings (FEEs). The Indian government has allowed 100 per cent Foreign Direct Investment (FDI) in the sector through the automatic route. The country has attracted \$418 million foreign direct investment (FDI) during April 2014 - September 2016 in diamond, gold and ornaments.



**GST impact on sector:**

According to the proposed GST regime, the state taxes on the gems and jewellery sector are likely to go up to 2-6% thereby bringing a significant increase in the rate structure burdening the companies associated with it.

At this point of time, the buyers pay only 2% tax, but after implementation of GST, the buyers of the goods and services might end up paying at least 6%. Not only this, but supplies are also proposed to be taxed which will further hamper the industry. Currently, supplies are not the basis of taxation, so transactions during testing, certification etc. are not taxed but now they all will be taxed. This would lead to valuation issues and requirement of high working capital.

Therefore, this increase in tax burden due to GST which will adversely affect the overall profit and exports of the companies and will hence discourage new investors from investing money in the sector. However, the biggest and only advantage of GST regime is that it will bring all indirect taxes under a single tax, thus bringing all the unorganized players into the tax net in some order.

### **Recent developments:**

#### **Government to set up 'Jewellery Park' in Mumbai:**

Rs 50-crore 'jewellery park' is all set to come up in Mumbai as part of the central government's two-pronged efforts to boost exports that include common facilitation centres for diamond jewellery workers in small units where they will be able to share expensive equipment on pay-per-use basis. This will help the sector to increase manufacturing, add value and generate employment.

#### **IDTC handles over 3 million carats of rough diamonds in India:**

India Diamond Trading Centre (IDTC), the only special notified zone (SNZ) in the country has handled more than 3 million carats of rough diamonds in excess of \$450 million dollars since it started its operations a year ago. The success of IDTC reflects constant endeavor to give the global mining companies an appropriate platform to exhibit their rough diamonds.

#### **Indian jewellers participate at Vicenzaoro Winter 2017 in Italy:**

Leading Indian jewellers have participated at the Vicenzaoro Winter 2017 currently underway at Vicenza, Italy with an aim to improve business relationships and increase networks. Participation of Indian exhibitors not only helps to improve their trade but it also helps to understand the market better and come up with jewellery pieces as per the latest and future trends for this market.

### **Corporate developments:**

- The International Institute of Diamond Grading & Research (IIDGR), part of The De Beers Group of Companies, has invested \$ 5 million for expanding its synthetic diamond testing facility in Surat. This facility will help to protect the domestic industry against emerging risks.
- Rajesh Exports in line with its strategy to focus on the highly profitable retail segment, has launched more than 50 new product designs, across all their 81 retail outlets - ShubhJewellers in Karnataka, India. This is to take advantage of the surge in the retail demand on the back of the upcoming Wedding Season.

- PC Jeweller has opened its 71st showroom at Allahabad in Uttar Pradesh state. The showroom exhibits large collection and varieties of Gold, Diamond & Silver Jewellery.
- Lypsa Gems & Jewellery DMCC, a wholly owned subsidiary of Lypsa Gems & Jewellery, has received a prestigious new order worth Rs 155 million from customers based out of UAE, for the supply of diamonds and diamond-studded jewellery.
- Kalyan Jewellers is planning to invest over Rs 500 crore to expand its geographic footprint by opening 15 new showrooms in 2017.

### **Budget Impacts:**

- The proposal to ban all cash transactions above Rs. 3 lakh beginning April 1, 2017, will further delay the recovery of sales in sectors especially the gems and jewellery sector. It will also reduce the grey market and unorganized sector's size in India as companies look at becoming more tax compliant. Gold purchases being high value, therefore, rural segments may be affected by the Rs 3 lakh cap on cash transactions.

The industry has been facing serious challenges, with the implementation of the PAN card limit of Rs 2 lakh. In order to overcome these the All India Gems and Jewellery Trade Federation (GJF), the apex body for domestic gems and jewellery industry, had recommended the Finance Minister to increase the mandatory PAN card limit to Rs 5 lakh and above and reduce the import duty on gold to at least 5 per cent in the Union Budget 2017-18. However, it was not implemented in the budget.

### **Outlook:**

The outlook of gems and jewellery industry looks promising with increasing focus of the world towards the quality of gems & jewellery products and better purchasing power of the people in India. The future growth of the business is likely to be driven by increased exports to the US and other markets. The government's demonetisation move is encouraging people to use plastic money, debit/ credit cards for buying jewellery. This is good for the industry in the long run as it is going to create a lot of transparency over the transaction point of view. Over the long term, gold jewellery demand is expected to witness consistent growth driven by growing lifestyle, anticipated recovery in economic conditions and rising demand from tier 2, tier 3 cities and also from the rural markets.

### Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
PC Jeweller Ltd.	416.80	7466.46	179.16	0.80	22.30	18.69
Renaissance Jewellery Ltd.	157.05	299.64	225.85	1.27	16.00	9.82
Rajesh Exports Ltd.	587.30	17340.62	122.31	0.17	13.81	42.54
Titan Company Ltd.	482.85	42866.75	46.69	0.46	8.42	57.36
Thangamayil Jewellery Ltd.	235.00	322.41	106.42	0.43	6.97	33.71
Goldiam International Ltd.	97.15	242.35	79.95	2.57	5.38	18.05
Vaibhav Global Ltd.	425.00	1383.19	150.47	0.00	4.52	94.09
Gitanjali Gems Ltd.	65.40	775.75	295.13	0.76	3.62	18.05
Patdiam Jewellery Ltd.	101.50	43.82	72.76	0.00	2.18	46.61
Sovereign Diamonds Ltd.	8.15	4.72	22.61	0.00	1.87	4.36
Golkunda Diamonds & Jewellery Ltd.	23.45	16.33	35.76	2.56	1.73	13.59
Uday Jewellery Industries Ltd.	18.50	21.63	12.22	0.00	1.54	12.02
Radhika Jeweltech Ltd.	21.13	49.87	63.54	0.00	1.26	16.74
Swarnasarita Gems Ltd.	22.80	47.60	40.36	0.00	0.64	35.42

Source – Ace Equity

#### Disclaimer

This report is for private circulation within the Indira Group. This report is strictly confidential and for information of the selected recipient only and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form. This report should not be construed as an offer or solicitation to buy or sell any securities or any interest in securities. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or any such factor. The information, opinions estimates and forecasts contained here have been obtained from, or are based upon, sources we believe to be reliable, but no representation of warranty, express or implied, is made by us to their accuracy or completeness. Opinions expressed are our current opinions as of the date appearing on this material only and are subject to change without notice.