

Outlook of Gems and Jewellery sector looks promising on demand revival

JULY 31, 2017

The Gems and Jewellery sector plays a significant role in the Indian economy and has been earmarked as one of the priority sectors which contributes almost 6 per cent of India's Gross Domestic Product (GDP). It is one of the fastest growing sectors and is extremely export oriented and labour intensive. The industry currently employs 3.5 million people and additional 2.5 million jobs are to be created by 2022.

India is considered to be the hub of the global jewellery market on the back of its low costs and easy availability of high-skilled labour. India is the world's largest cutting and polishing centre for diamonds, with the cutting and polishing industry being well supported by government policies.

The sector is contributing enormously to the country's foreign exchange earnings (FEEs) and the Government of India is seeing the sector as a thrust area for export promotion. In this regard, the company is currently allowing 100 per cent Foreign Direct Investment (FDI) in the sector through the automatic route. The sector is witnessing changes in consumer preferences due to adoption of western lifestyle. Consumers are demanding new designs and varieties in jewellery, and branded jewellers are able to fulfill their changing demands better than the local unorganised players. Moreover, increase in per capita income has led to an increase in sales of jewellery, as jewellery is a status symbol in India.

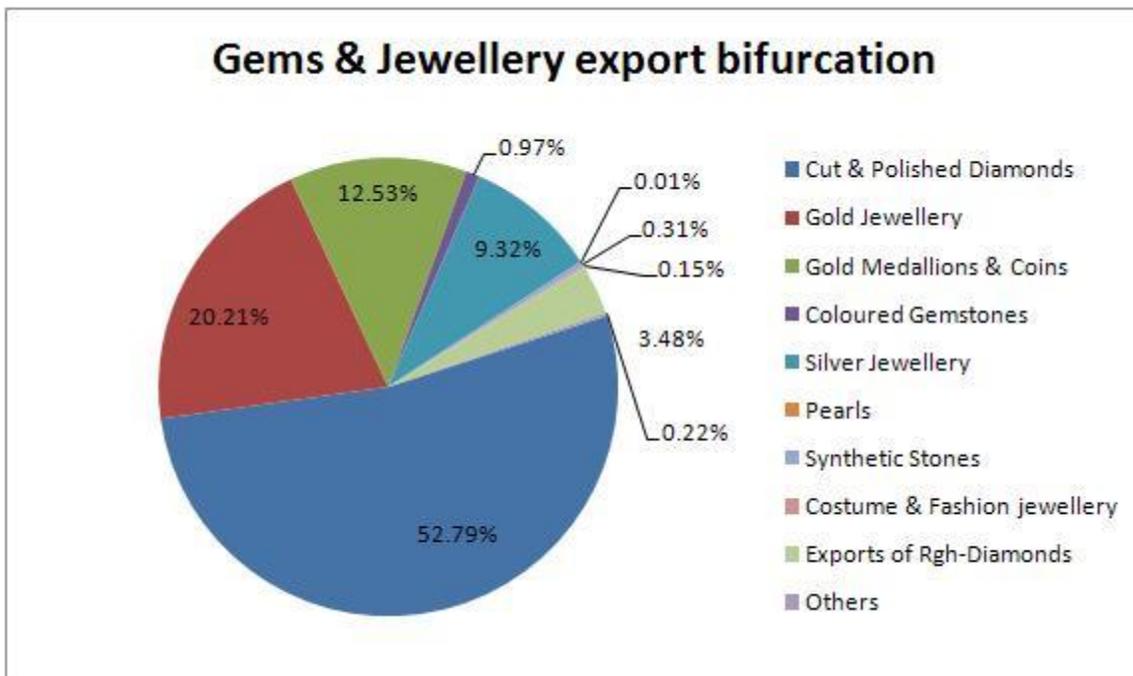
Export

India's gem and jewellery gross exports rose 9.85 percent to \$43,156.21 million in FY17 (provisional) vis-a-vis \$39,244.29 million in FY16. The gems and jewellery exports accounted for 15.72 percent of the country's cumulative exports of \$274.65 billion, ranking the sector as one of the leading foreign exchange earners for the country. Major Export Destinations for the Gems & Jewellery Sector in FY17 were UAE with 32 percent of exports directed to the market followed by Hong Kong at 30 percent and USA at 23 percent.

Meanwhile, the country's gross exports of gems and jewellery for the month of March 2017 reached \$4088.02 million (provisional), showing a growth of 15.79% as compared to exports worth \$3530.41 million for the same month previous year.



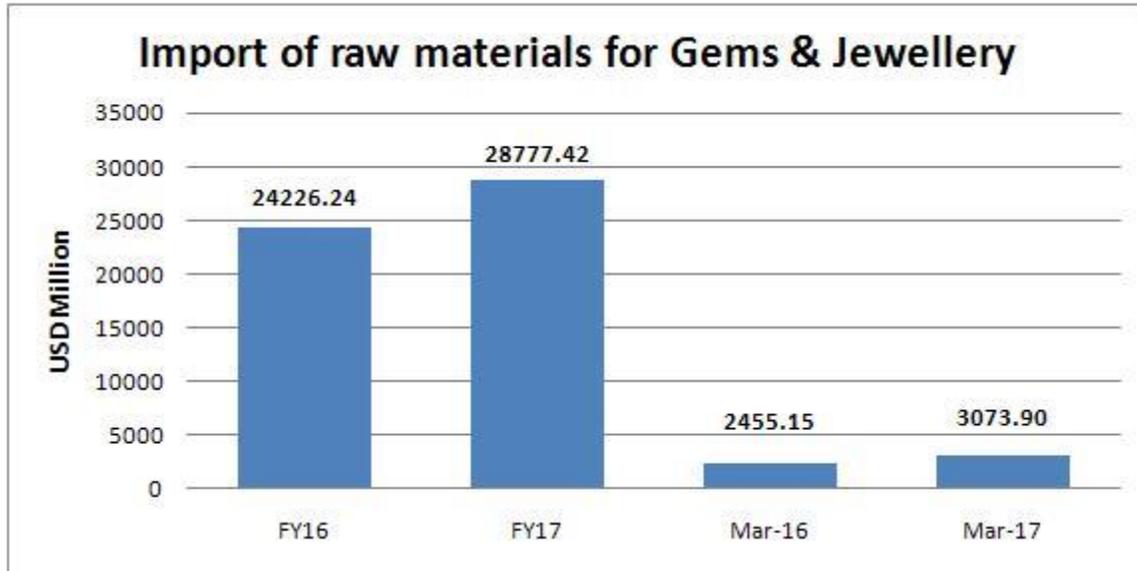
The country's gross exports of cut and polished diamonds in FY17 stood at \$22,783.81 million, rising 10.24 percent as compared to \$20,667.79 million in FY16. Gold jewellery exports in the year rose 1.92 percent to \$8,721.81 million in FY17 as compared to \$8,557.26 million in FY16. Silver jewellery exports rose a whopping 35.83 percent to \$4,020.62 million in FY17 as against \$2,960.04 million in FY16. The year weighed heavy on exports of coloured gemstones which dropped 3.08 percent to \$419.9 million from \$433.18 million in FY16. Exports of rough diamonds increased to \$1,500.30 million, up 28.24% from \$1169.95 million in FY16.



Import

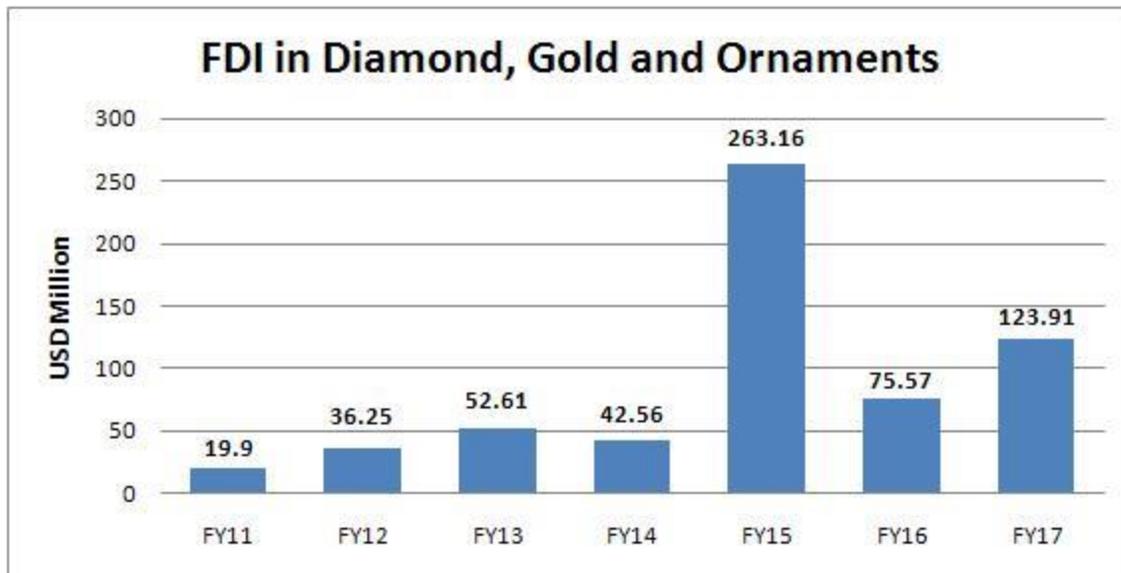
Import of raw material for gem and jewellery gained 18.79 percent to \$28777.42 million in FY17 (provisional) vis-a-vis \$24226.24 million in FY16. The country's import of raw material for

gems and jewellery for the month of March 2017 reached \$3073.90 million (provisional), showing a growth of 25.20% as compared to exports worth \$2455.15 million for the same month previous year. Meanwhile, the imports of rough diamonds grew 21.59 percent in FY17 to \$17,080.23 million as compared to \$14,047.81 million in FY16. Import of cut and polished diamonds dropped 5.13% to \$2,629.20 million as compared to \$2,771.46 million in FY16.



FDI in the sector

The diamond, gold and ornaments sector has attracted \$123.91 million foreign direct investment (FDI) during FY17, up by around 64 percent as compared to \$75.57 million in FY16. The sector had attracted FDI worth \$263.16 million and \$42.56 million in FY15 and FY14 respectively.



Impact of GST on the sector

Rough precious and semi-precious stones will be taxed at the rate of 0.25%, while gold, gems and jewelry will be taxed at the rate of 3%, which is lower than the lowest slab of 5% under the new GST regime and is closer to the current tax incidence of about 2%. The government created an entirely new tax slab of 3% for a single item -- gems and jewellery -- in addition to the four tax slabs decided for all the other items.

Earlier, the gold attracted 1% excise, and 1% VAT, apart from a 10% import duty. By keeping the GST at 3% along with the provision of input tax credit, the GST Council ensured that the tax burden on the precious metal does not change significantly after the implementation of GST.

Recent development

India inks pact with Russia in areas of generic marketing of diamonds

India inked a Memorandum of Co-operation (MoC) with Russia in the Diamond Sector. The MoC marks a leap forward in the co-operation between the two biggest entities representing two different segments of the diamond industry - India is the largest diamond cutting and polishing centre in the world with the greatest share in both value and volume terms of the market; and ALROSA is the largest volume producer of rough diamonds. Moreover, the co-operation between the two giants in the areas of generic marketing of diamonds will have a game changing impact on the international diamond industry.

Sale of old gold jewellery will not attract GST on exchange

The sale of old gold by individuals for a consideration won't attract the goods and services tax, providing respite to people who exchange jewellery. Accordingly, the sale of old jewellery by an individual to a jeweller will not attract the provisions of Section 9 (4) of the GST act and the jeweller will not be liable to pay tax under reverse charge mechanism on such purchases. However, if an unregistered supplier of gold ornaments sells it to registered supplier, the tax will apply under reverse charge mechanism. Under this mechanism, the liability of paying tax is on the receiver of goods or services and not on the supplier.

Gem and Jewellery council inks pact to skill 10,000 artisans

To train and certify artisans, the Gem and Jewellery Skill Council of India (GJSCI) signed an agreement with Indian Institute of Gems and Jewellery (IIGJ), Jaipur and a city based jewellers association under Pradhan Mantri Kaushal Vikas Yojana in March 2017. The memorandum of understanding (MoU) will enable GJSCI to educate and certify artisans through recognition of prior learning (RPL) programme. As per the MoU, the council aims to certify minimum 10,000 artisans in the next six months. So far the country has more than 80,000 skilled candidates in the under Skill India initiative.

Corporate developments

- Ratan Tata backed online jewellery firm BlueStone.com is targeting revenue of Rs 1000 crore in FY19 and expecting to achieve profitability around the same time. The company has clocked a turnover of Rs 250 crore in FY17.

- Jewellery chain Malabar Gold & Diamonds has drawn up Rs 2,000 crore expansion plan to open 80 more stores in FY18. The company will fund 75 per cent of the amount through debt from banks, while remaining Rs 500 crore will be funded from internal accruals.
- Kalyan Jewellers acquired online jewellery firm Candere in a deal people close to the development pegged at Rs 35-40 crore. The first strategic move of its kind on the part of Kalyan Jewellers will augment the presence of the Thrissur-headquartered chain in the growing online jewellery segment in India.
- US private equity firm, Warburg Pincus agreed for second round of investment i.e. Rs 500 crore in Kalyan Jewellers, taking its total commitment to the Kerala-based gold retailer to Rs 1,700 crore. In 2014, Warburg had invested Rs 1,200 crore to pick 10% stake in Kalyan Jewellers and that was the single largest investment in the jewellery sector in the country.

Outlook

Following a turbulent Calendar Year (CY) 2016, performance of gems and jewellery sector has improved significantly and outlook for the coming time looks promising, as demand has rebounded sharply in past few quarters. Easing liquidity pressures coupled with fading impact of demonetization and extended wedding season too will support the growth. Moreover, the demand is unlikely to be impacted by the GST rate which at 3%, which is only marginally higher than the earlier rates. Government initiatives in the field of gems and jewellery too will help the sector in near future.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YIELD %	TTM EPS	TTM PE
Tata Sponge Iron Ltd.	842.05	1296.76	581.43	1.31	51.15	16.46
Tata Metaliks Ltd.	664.40	1680.13	94.04	0.38	40.25	16.51
Technocraft Industries (India) Ltd.	458.00	1204.54	242.14	0.66	37.00	12.38
Kalyani Steels Ltd.	456.05	1990.80	170.76	1.10	35.72	12.77
Tata Steel Ltd.	600.00	58272.93	477.87	1.67	34.76	17.26
Sarda Energy & Minerals Ltd.	346.40	1248.75	348.55	1.15	28.60	12.11
Maharashtra Seamless Ltd.	407.95	2733.25	419.83	1.23	21.72	18.78
Beekay Steel Industries Ltd.	145.00	276.54	119.44	0.69	18.60	7.79
Rajratan Global Wire Ltd.	608.20	264.68	227.31	0.25	18.50	32.88
APL Apollo Tubes Ltd.	1587.15	3744.08	166.77	0.76	16.67	95.20
Gallantt Ispat Ltd.	213.00	601.43	139.67	0.23	15.67	13.59
Archon Industries Ltd.	12.96	1.57	36.11	0.00	14.40	0.90
LA TIM Metal & Industries Ltd.	30.00	15.38	8.33	0.00	12.32	2.44
JSW Steel Ltd.	228.85	55318.09	101.13	0.98	12.05	18.99

Source – Ace Equity



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