Industry Report on Indian Gems & Jewellery Sector

31st October 2023

Disclaimer

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Global Macroeconomic Scenario

The global economy is now showing signs of moderate recovery as it posted a growth of 3.5% in CY 2022. But GDP growth is expected to report a moderate 3% growth in CY 2023 and 2.9% in CY 2024. Global banks were carrying a historically high debt burden after COVID. Central banks took tight monetary measures to control inflation and spike in commodity prices. Russia's war with Ukraine further affected the global supply chains and inflated the prices of energy and other food items. These factors coupled with war-related economic sanctions impacted the economic activities in Europe. Any further escalation in the war may further affect the rebound of the economy in Europe.

While China was facing a crisis in the real estate sector and prices of properties were declining, with the reopening of the economy, consumer demand is picking up again. The Chinese authorities have taken a variety of measures, including additional monetary easing, tax relief for corporates, and new vaccination targets for the elderly. The government has also taken steps to help the real estate sector including cracking down on debt-ridden developers, announcing stimulus for the sector and measures to encourage the completion and delivery of unfinished real estate projects. The sector is now witnessing investments from developers and demand from buyers.

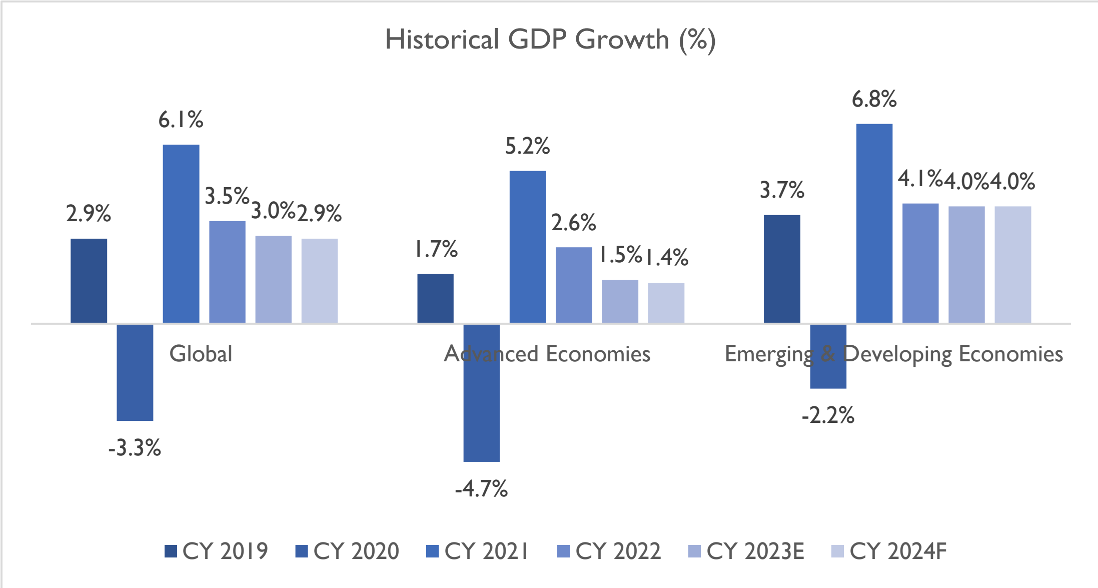
Global headline inflation is set to fall from 8.7 % in CY 2022 to 7.0 % in CY 2023, primarily on the back of softening commodity prices. Most of the central banks in the world has been increasing interest rates since CY 2021 to control inflation, and this is having an impact. With the sharp rise in policy rates, vulnerabilities in the banking sector have come into focus. Fears of contagion have risen across the broader financial sector, including non-banking financial institutions with regulators taking action to stabilize the banking system.

Global GDP Growth Scenario

The global economy started to rise from its lowest levels after countries started to lift the lockdown. The pandemic lockdown was a key factor as it affected economic activities resulting in a recession in the year CY 2020, as the GDP growth touched -3.3%.

In CY 2021 disruption in the supply chain affected most of the advanced economies as well as low-income developing economies. The rapid spread of Delta and the threat of new variants in mid of CY 2021 further increased uncertainty in the global economic environment.

Global economic activities experienced a sharper-than-expected slowdown in CY 2022. One of the highest inflations in decades forced most of the central banks to tighten their fiscal policies. Russia’s invasion of Ukraine affected the global food supply resulting in a further increment in the cost of living. As a result, global growth declined from 6.1% in CY 2021 to 3.5% in CY 2022.

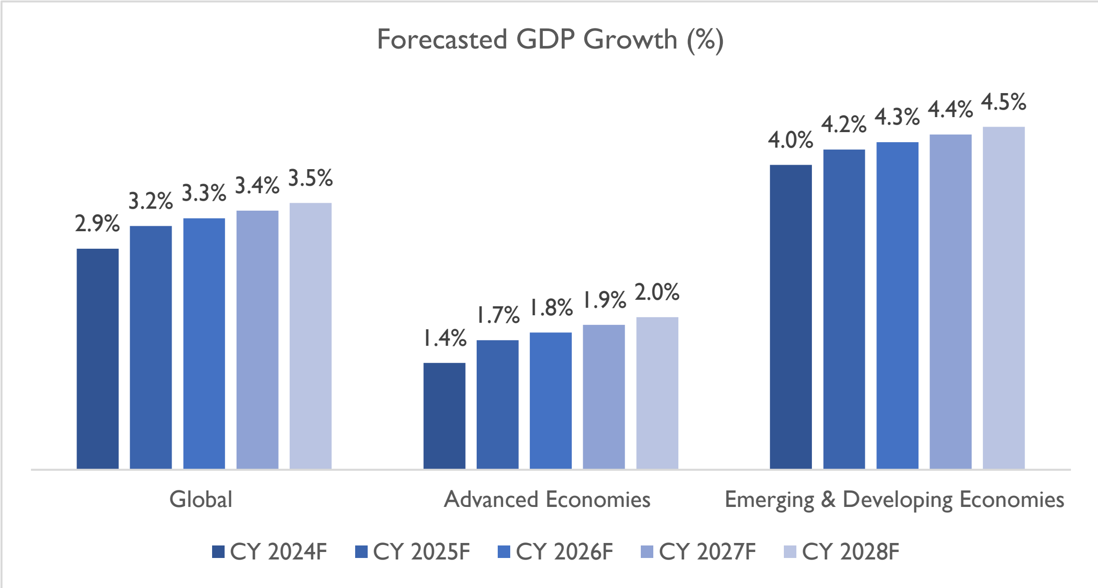


Source – IMF Global GDP Forecast Release 2023

Note: Advanced Economies and Emerging & Developing Economies are as per the classification of the World Economic Outlook (WEO). This classification is not based on strict criteria, economic or otherwise, and it has evolved over time. It comprises of 40 countries under the Advanced Economies including the G7 (the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada) and selected countries from the Euro Zone (Germany, Italy, France etc.). The group of emerging market and developing economies (156) includes all those that are not classified as Advanced Economies (India, China, Brazil, Malaysia etc.)

In the current scenario, global GDP growth is forecasted to record a moderate growth of 3% in CY 2023 as compared to 3.5 % growth in CY 2022. While high inflation and rising borrowing costs are affecting private consumption, on the other hand, fiscal consolidation is affecting government consumption.

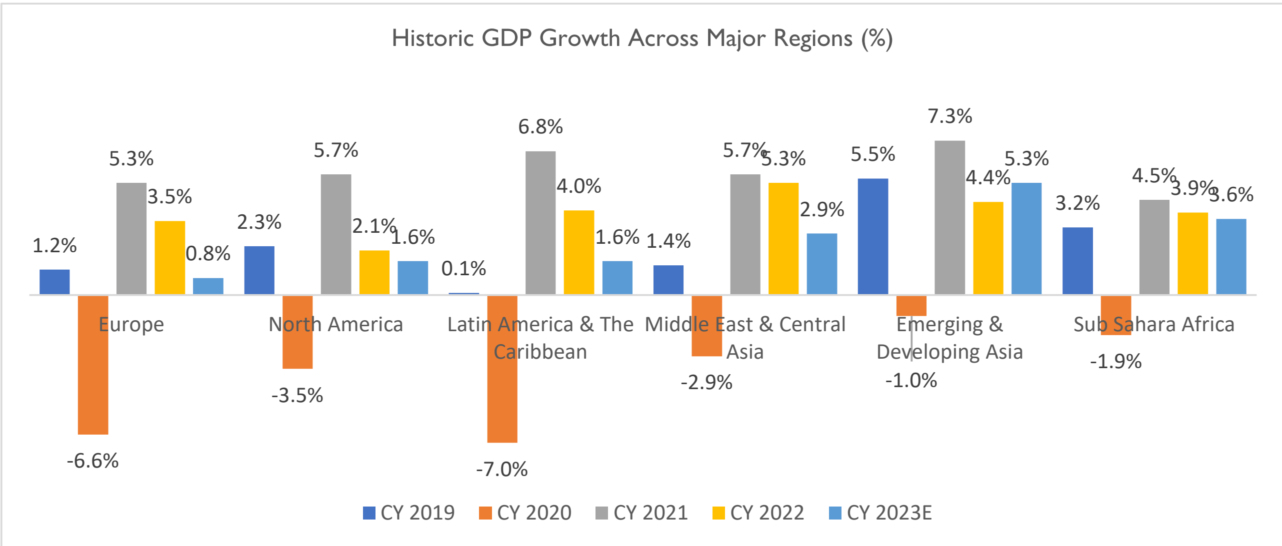
Moderating growth in developed economies will affect the GDP growth in CY 2024 and global GDP is expected to record marginal growth of 2.9% in CY 2024. The current crisis in the housing sector, bank lending, and industrial sectors are affecting the growth of global GDP. Inflation forced central banks to adopt tight monetary policies. After touching the peak, inflationary pressures are slowly easing out. This environment weighs against interest rate cuts by many monetary authorities. The expectation is therefore still for slowing growth in the second half of CY 2023 and the first half of CY 2024.



Source – IMF Global GDP Forecast Release 2023, D&B Estimates

GDP Growth Across Major Regions

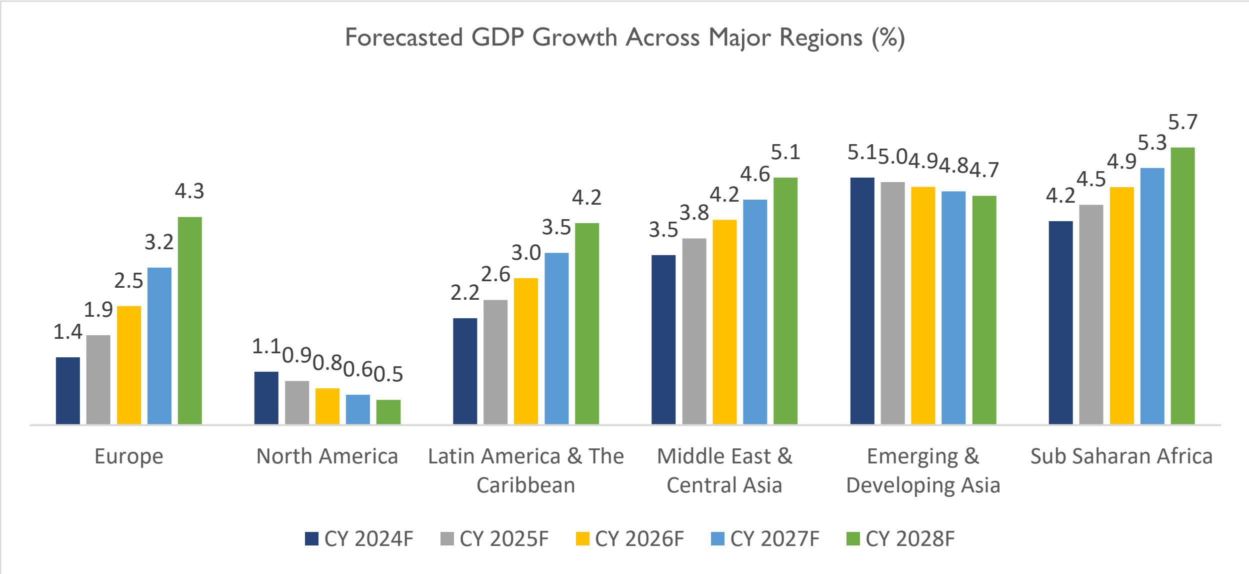
GDP growth of major regions including the United States, Latin America, Europe, Middle East & Central Asia, and Sub-Saharan Africa, are showing signs of slow growth and recession. Meanwhile, GDP growth in Emerging and Developing Asia (India, China, Indonesia, Malaysia etc.) is expected to increase from 4.4% in CY 2022 to 5.3% in CY 2023.



Source-IMF World Economic Outlook 2023

Except for Emerging and Developing Asia, all other regions are expected to record a decline in GDP growth rate in CY 2023 as compared to CY 2022. GDP growth in the United States is expected at 1.6% in CY 2023. Tight monetary and financial conditions coupled with high inflations are the major factors in this subdued growth.

Higher energy prices are curbing consumer demand in Europe's largest economies. Surging inflation and a decline in government spending are further affecting on an overall basis as Europe is expected to record GDP growth of 0.8% in CY 2023 as compared to 3.5% growth in CY 2022. China is expected to see strong increase in its GDP growth after the government has lifted the restrictions of its zero-COVID policy. China is expected to record a 5.4% growth in its GDP in CY 2023. Asian economies are expected to drive most of the global growth in CY 2023, as they will benefit from the ongoing reopening dynamics and less intense inflationary pressures compared to other regions.



Source-IMF, OECD, and World Bank, D&B Estimates

India Macroeconomic Analysis

GDP Growth Scenario

India's economy is showing signs of resilience with GDP growing by 7.2% in FY 2023. Although this translates into a moderation in demand (compared to FY 2022), the GDP growth in FY 2023 represents a return to pre pandemic era growth path. Despite this moderation in growth, India continues to remain one of the fastest growing economies in the world.

Country	GDP Growth (2022)
India	**7.2%**
United Kingdom	4.1%
Italy	3.7%
Canada	3.4%
China	3.0%
Brazil	2.9%
France	2.5%
United States	2.1%
South Africa	1.9%
Germany	1.8%
Japan	1.0%
Russia	-2.1%

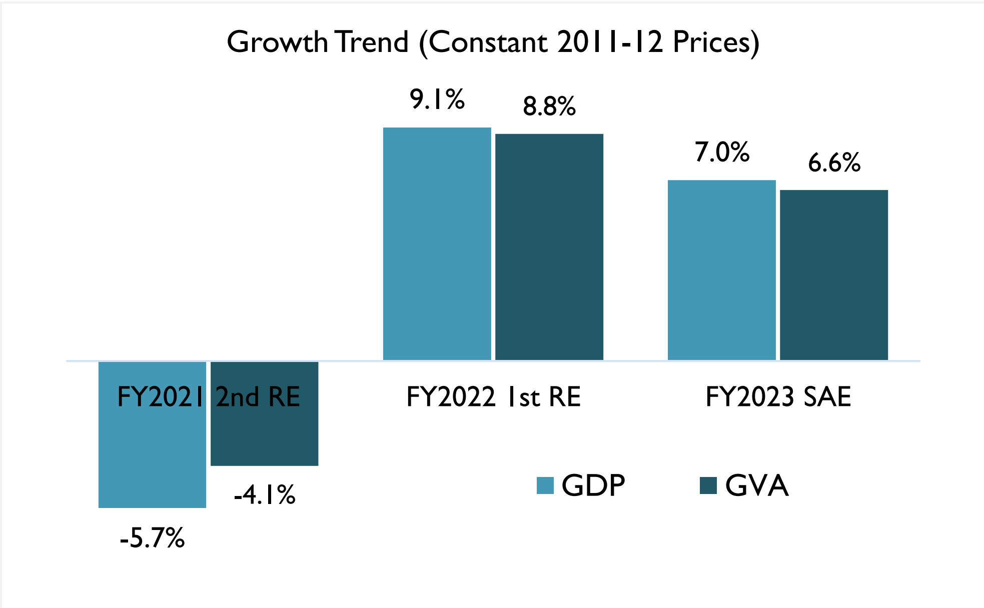
Source: World Bank
GDP growth for India refers to FY 2023 as per MOSPI
Countries considered include - Largest Developed Economies and BRICS (Brazil, Russia, India, China, and South)
Countries have been arranged in descending order of GDP growth.

There are quite a few factors aiding India's economic recovery – notably its resilience to external shocks (ongoing Russia – Ukraine conflict) and rebound in private consumption. This rebound in private consumption is bringing back the focus on improvements in domestic demand, which together with revival in export demand is a precursor to higher industrial activity. Already the capacity utilization rates in Indian manufacturing sector are recovering as industries have stepped up their production volumes. As this momentum sustains, the country may enter a new capex cycle. The universal vaccination program by the Government has played a big part in reinstating confidence among the population, in turn helping to revive private consumption.

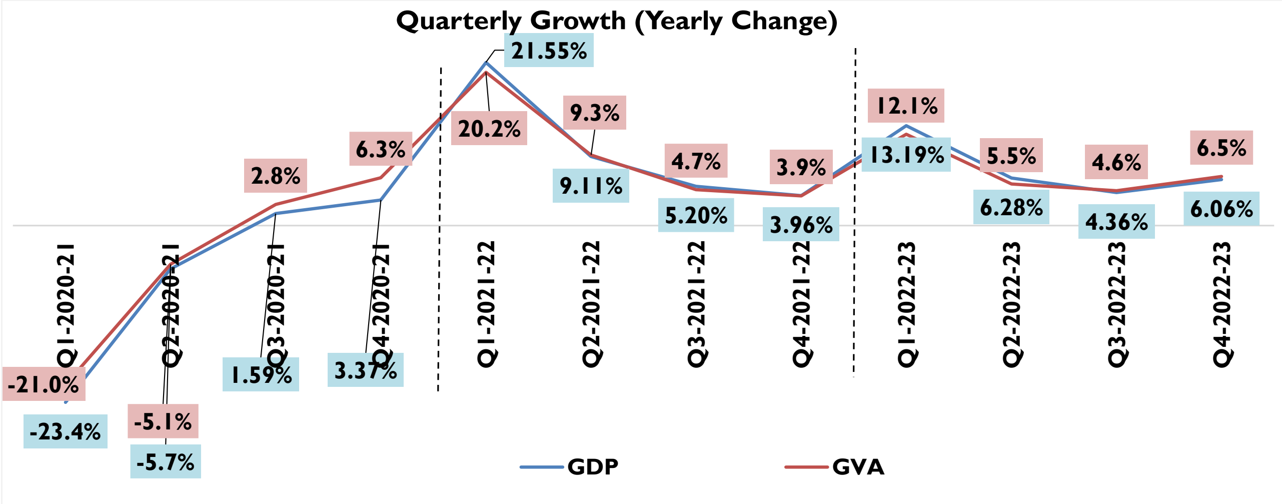
Realizing the need to impart external stimuli, the Government stepped up its spending on infrastructure projects which in turn had a positive impact on economic growth. The capital expenditure of central government increased by nearly 24.5% during FY 2023 as compared to the previous fiscal. The improvement was accentuated further as the Union Budget 2023-2024 announced 37.4% increase in capital expenditure (budget estimates), to the tune of Rs 10 trillion. The announcement also included 30% increase in financial assistance to states at Rs 1.3 trillion for capex. This has provided the much-needed confidence to private sector, and in turn attracted private investment.

On the lending side, the financial health of major banks has witnessed an improvement which has helped in improving the credit supply. With capacity utilization improving, there would be demand for credit from corporate sector to fund the next round of expansion plans. Banking industry is well poised to address that demand. Underlining the improving credit scenario is the credit growth to micro, small and medium enterprise (MSME) sector as the credit outstanding to the MSME sector by scheduled commercial banks in the financial year FY 2023 grew by 12.3% to Rs 22.6 trillion compared to FY 2022. The extended Emergency Credit Linked Guarantee Scheme (ECLGS) by the Union Government has played a major role in improving this credit supply.

India's GDP in FY 2023 grew by 7.2% compared to 9.1% in the previous fiscal on the back of slowing domestic as well as external demand owing to series of interest rate hikes globally to tackle high inflation. The year-on-year moderation in growth rate is also partly due to a fading impact of pandemic-induced base effects which had contributed towards higher growth in FY 2022. On quarterly basis, the country growth moderated in Q2 and Q3 of FY 2023 which highlights impact of slowing economy on the back of monetary tightening. During Q3 FY 2023, the country's GDP grew by 4.36% against 6.28% y-o-y increase in the corresponding quarter last fiscal. However, the fourth quarter of FY 2023 saw a rebound in growth rate, indicating an optimistic scenario.



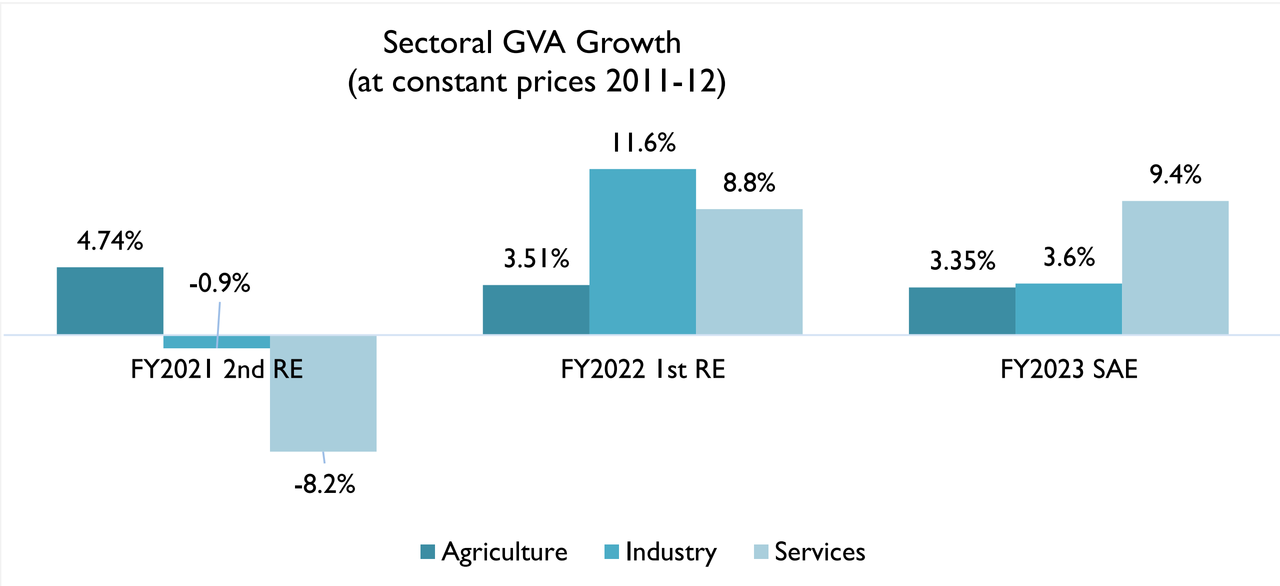
Source: Ministry of Statistics & Programme Implementation (MOSPI)
RE stands for Revised Estimates, SAE stands for Second Advance Estimates



Source: Ministry of Statistics & Programme Implementation (MOSPI)

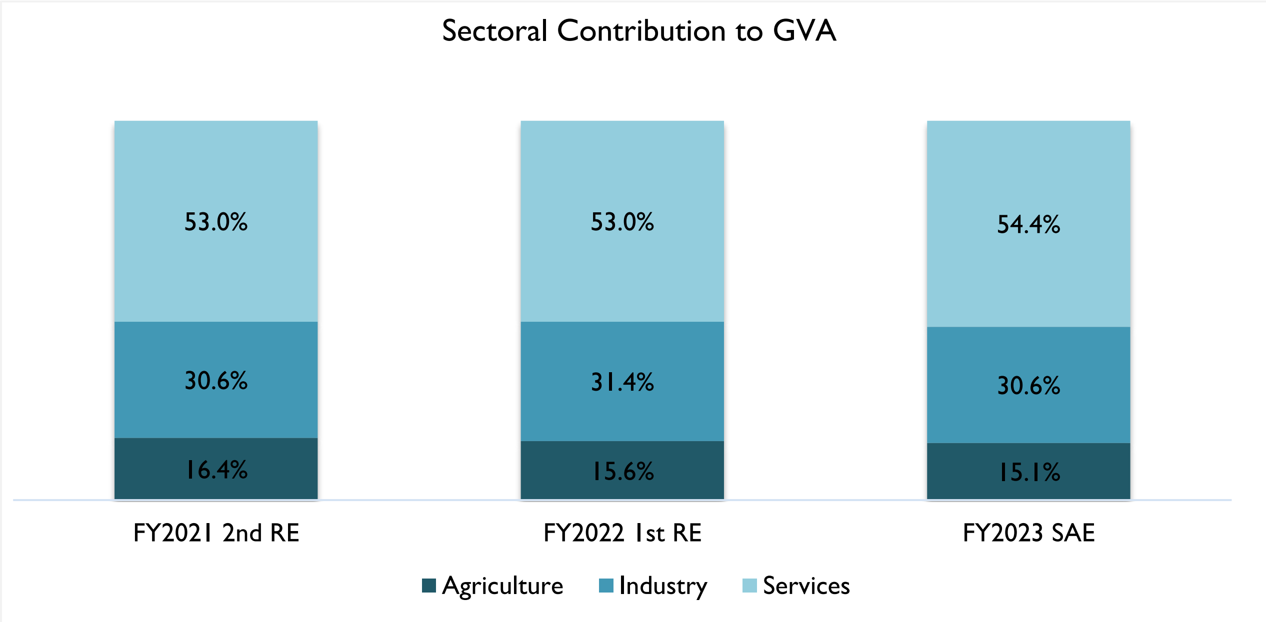
Sectoral Growth Trend: Annual

Sectoral analysis of GVA reveals growth tapered sharply in industrial sector which is estimated to have grown by just 3.6% in FY 2023 against 11.6% in FY 2022. In the industrial sector, growth across major economic activity such as mining, manufacturing, construction sector slowed registering a growth of 3.4%, 0.6% and 9.1% in FY 2023 against a growth rate of 7.1%, 11.05% and 14.8% recorded in FY 2022, respectively. Utilities sector too observed a marginal moderation in y-o-y growth to 9.2% against a decline of 3.6% in the previous years.



Source: Ministry of Statistics & Programme Implementation (MOSPI)

Talking about the services sectors performance, with major relaxation in covid restriction, progress on covid vaccination and living with virus attitude, business in service sector gradually returned to normalcy in FY 2022. Economic recovery was supported by the service sector as individual mobility returned to pre-pandemic level. The trade, hotel, transport, communication, and broadcasting segment continued to strengthen and grow by 14.18% in FY 2023 against 13.75% in the previous year and financial services, real estate and professional services sector recorded 6.85% y-o-y growth against 4.73%. However, overall service sector growth was curbed by moderation in public administration and defence services sector which recorded 7.12% yearly increase against 9.7% increase in the previous year.



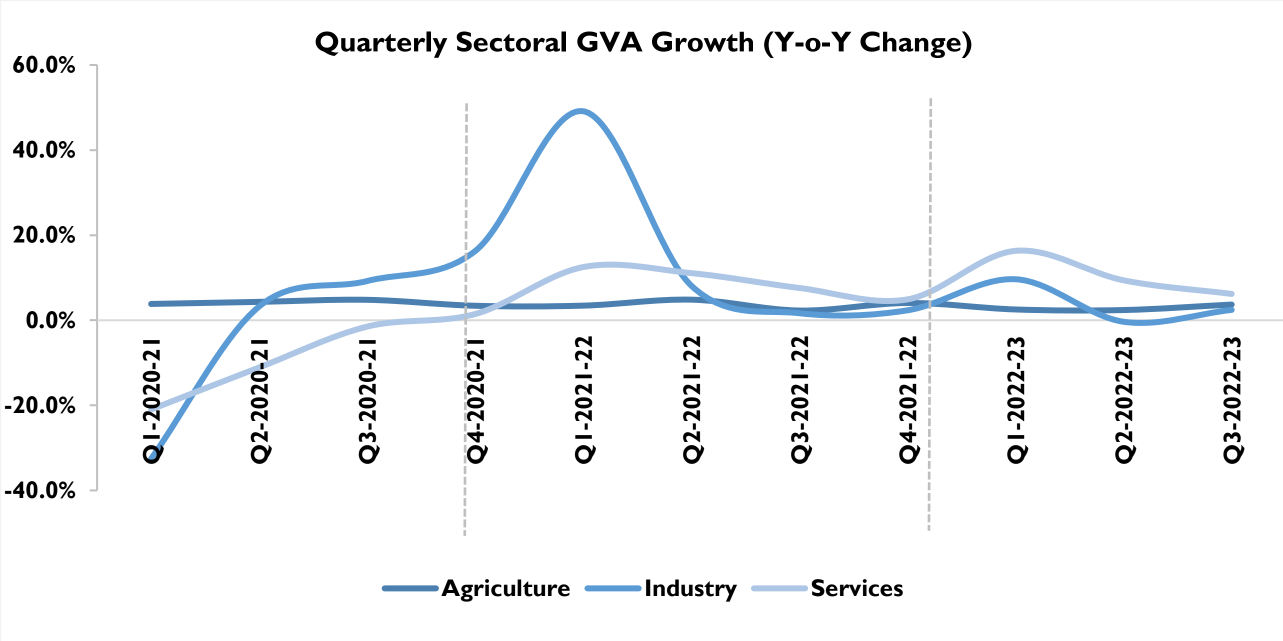
Source: Ministry of Statistics & Programme Implementation (MOSPI)

Sectoral Growth Trend: Quarterly

Quarterly GVA number indicated sustained weakness in economic activity during Q3 FY 2023 with manufacturing activity being the worst hit segment amongst the industrial sectors. India's manufacturing sector shrank by 1.1% on-year in Q3 FY 2023, a second straight contraction highlighting the continuing weakness in consumer demand and exports. In Q2 FY 2023, manufacturing sector output was down by 3.57%. While quarterly growth in both agriculture and other sectors within industrial sector strengthened during Q3 FY 2023.

Agriculture sector GVA strengthen in Q3 FY 2023 to register 3.68% yearly growth compared to both corresponding quarter last year (2.28%) and previous quarter (2.4%) in FY 2022. Any growth between 3.5-4% in farm sector is considered above the long-term trend line. Construction sector witnessed 8.39% y-o-y growth in Q3 of FY 2023 against 5.85% y-o-y growth in the previous quarter, mining and quarrying sector, and Electricity, gas, water supply & other utility services sector registered 3.7% and 8.24% y-o-y growth against -0.4% and 5.96%, respectively.

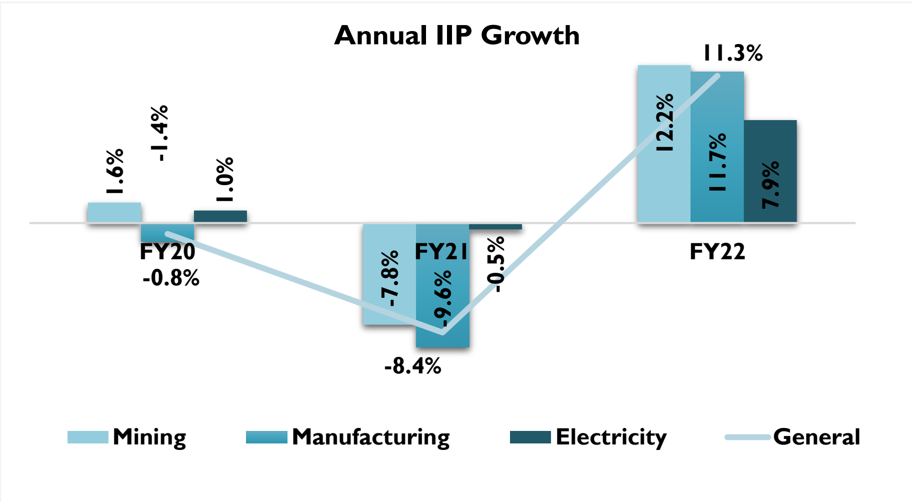
In Q3 FY 2023, yearly growth stood as 0.23%, 5.42% and 5.99% in construction, mining and quarrying and Electricity, gas, water supply & other utility services sector, respectively. Within service sector, quarterly growth moderated across all segments in Q3 FY 2023 against the previous quarter. Trade, hotel, transport, communication, and broadcasting segment observed 9.56% y-o-y growth in Q3 as compared to 15.64% growth in the last quarter. Other services sector broadly classified under Public Admin, Defence & Other Services and Financial, Real Estate & Professional Services too observed 1.99% and 5.79% growth in Q3 FY 2023 against 5.57% and 7.13% y-o-y change in Q2 FY 2023.



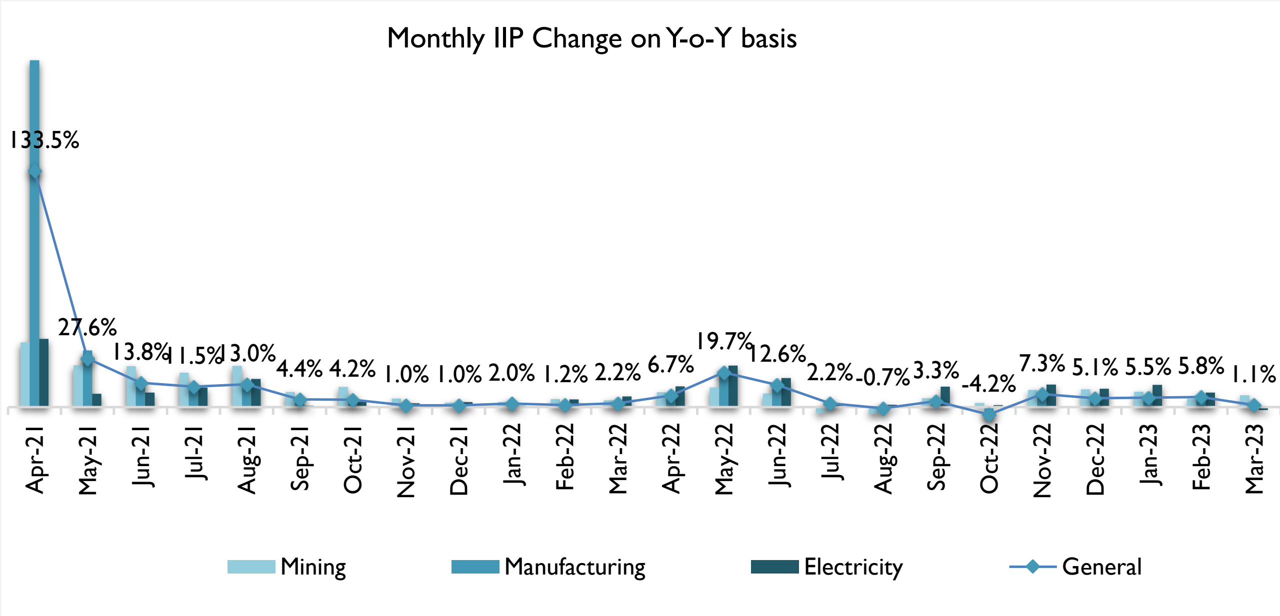
Source: Ministry of Statistics & Programme Implementation (MOSPI)

Index of Industrial Production

After experiencing three years of deteriorating industry growth, the country's Index of Industrial Production (IIP) index registered 11.3% y-o-y growth where growth was evenly spread across all sub-segments. Manufacturing index, with 77.6% weightage in overall index, registered 11.7% y-o-y growth in FY 2022 while mining sector index registered the highest growth. Classified based on usage i.e., infrastructure/construction goods, capital good, intermediate good and consumer durable outperformed over the other sector and registered healthy double-digit growth.

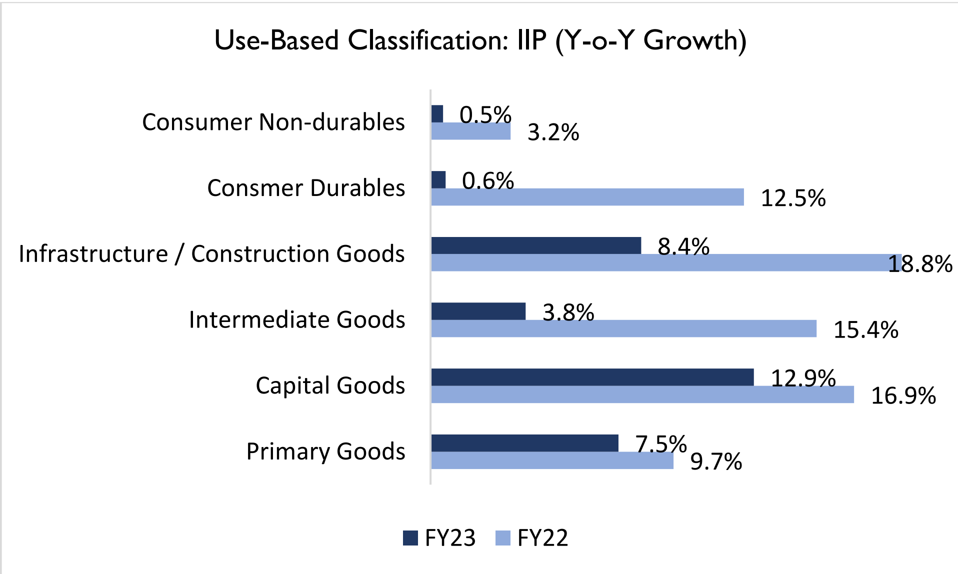


Source: Ministry of Statistics & Programme Implementation (MOSPI)



Source: Ministry of Statistics & Programme Implementation (MOSPI)

In FY23, IIP index improved steadily between March to May but moderated sharply in the subsequent three month and it measured lowest in October 2022 while it showed uneven movement in the subsequent month too. IIP again moderated to register 1.1 % y-o-y growth in March 2023. Manufacturing activity which has 77.6% weightage in the overall index, grew by 0.5% in March 2023 and mining activity grew by 6.8% on y-o-y while electricity activity fell by 1.6% on y-o-y basis.

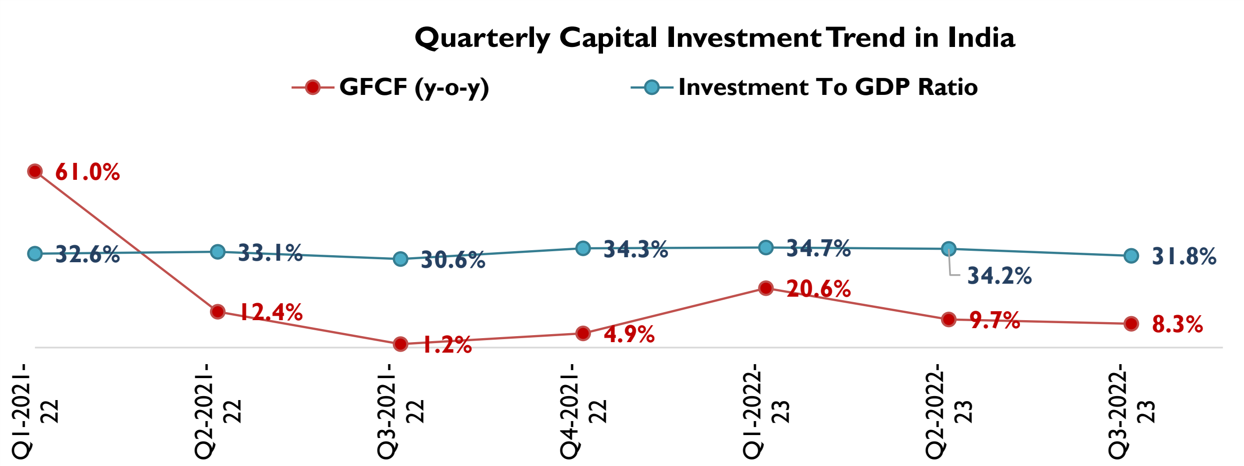


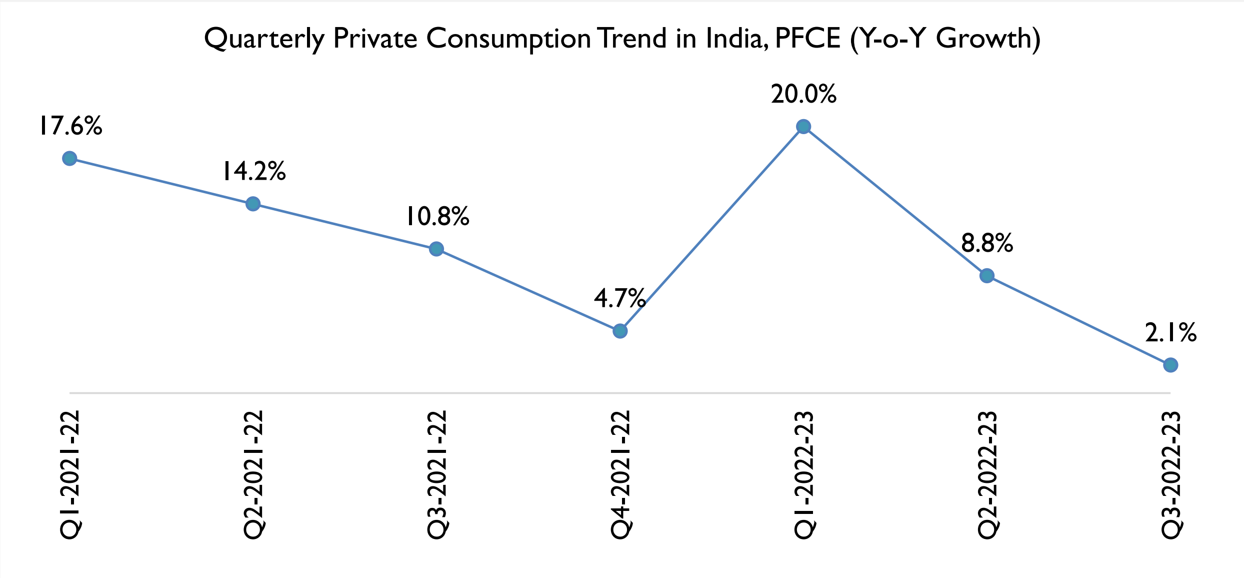
Sources: MOSPI

As per the use-based classification, growth in all segments deteriorated for FY 2023 as compared to FY 2022. Consumer good and intermediate goods were worst hit segments followed by infrastructure / construction Goods. The contracting IIP data points towards adverse operating business climate as global headwinds, high inflation, and monetary tightening started having adverse impact on manufacturing activity in FY 2023.

Investment & Consumption Scenario

Other major indicators such as Gross fixed capital formation (GFCF), a measure of investments, moderated during Q2 FY 2023 and Q3 FY 2023 while 8% y-o-y growth number was encouraging against 1.2% yearly growth in Q3 FY 2022. Despite the festive season demand and largely a covid-free economy, Private Final Consumption Expenditure (PFCE) a realistic proxy to gauge household spending, observed a continued moderation in Q3 FY 2023 where yearly growth softened to 2.1% which was nearly 7% lower compared to Q2 FY 2023.

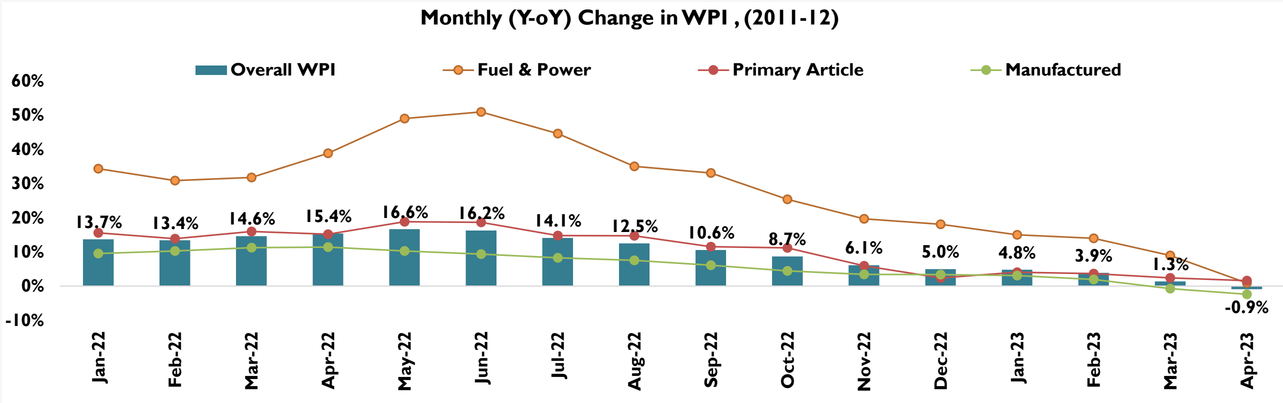




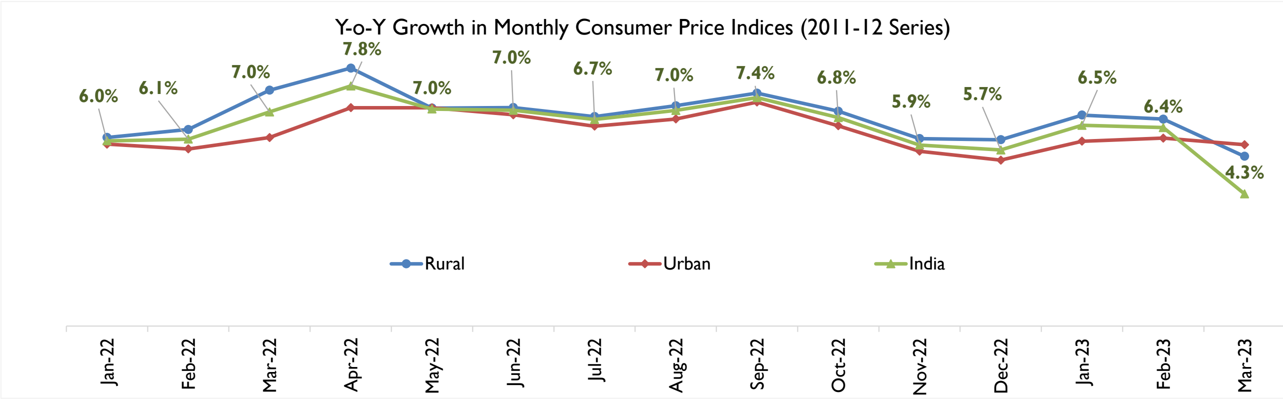
Sources: MOSPI

Inflation Scenario

Wholesale Price Index (WPI) is moderating on the back of softening of prices. Compared to April 22, WPI in April 2023 dropped by -0.9%. This is primary on the back of softening of fuel & power prices. Monthly y-o-y change (April 2023 v/s April 2022) for manufactured products was -2.9%, and this too contributed to the moderation in WPI. Softening prices of mineral oils, chemicals & chemical products, textiles, crude petroleum & natural gas, textiles, and food products. contributed towards moderation in WPI inflation.



Source: MOSPI, Office of Economic Advisor



Source: CMIE Economic Outlook

Retail inflation rate (as measured by Consumer Price Index) again jumped above 6% tolerance limit of the central bank in January 2023 after observing mild moderation in the previous two month. The overall CPI grew by 6.5% in January 2023 due to spike in food inflation and CPI food index grew by 5.9% during FY 2023 against 4.2% y-o-y growth in the previous year. Within food index, Cereals and product-led food inflation reached 16.1 per cent in January 2023 from 13.8 per cent in December 2022. As a part of anti-inflationary measure, the RBI has hiked the repo rate by 225 bps since May 2022 to current 6.5% (May 2023), with latest fourth round hike announced on 8 Feb 2023. The Reserve Bank of India has estimated an average inflation rate of 6.5% for FY 2023. Since then, retail inflation appears to be softening, as it grew by 6.4% and 4.3% respectively in February and March of 2023.

Growth Outlook

Amidst the difficult and uncertain external economic environment, the Indian government has delivered a balanced Union Budget which focuses on achieving an inclusive and sustainable growth while adhering to the fiscal glide path. Notwithstanding the external risk, there is a sustained momentum in economic activity supported by domestic drivers. The consumer confidence survey by the Reserve bank of India points towards rising confidence of households both for the current situation as well as the future expectations (for a one-year period).

Rural demand is likely to be boosted by good prospects for agricultural output and discretionary spending is expected to support urban consumption supporting. Resilient domestic financial markets, sturdy growth in credit and the government's thrust on capital expenditure is expected to drive momentum in investment activity. Capacity utilization in the manufacturing sector has surpassed its long period average. Thus, the stance taken by the government to not only emphasize on the top-down approach to growth i.e focusing on substantial capital outlay, but also to place focus on the bottom of the pyramid by trying to unleash the potential of the primary sector in the Union Budget should support India's growth momentum in 2023.

Key factors that would propel India's economic growth in the coming years.

Government focus on infrastructure development

Infrastructure development has remained recurring theme in India's economic development. As India aims to grow to a USD 5 trillion economy by 2027, Construction sector that include Infrastructure construction will be critical for boosting economic growth as it is the key growth enabler for several other sector. Infrastructure development provides impetus to other sectors like cement, bitumen, iron and steel, chemicals, bricks, paints, tiles, financial services among others. A unit increase in expenditure in construction sector has a multiplier effect on other sectors with a capacity to generate income as high as five times in other sectors. The sector enjoys intense focus from the Government which is well reflection in higher budgetary allocations. To push the infrastructure development, government has also announced higher budgetary allocation, various arrangement for raising funds through road asset monetization plan and converting of NHAI's existing InvIT into a public one is also planned. With economic targeting to reach USD 5 trillion economy by 2027, demand for various infrastructure facilities such as power, cargo movement, passenger movement is likely to grow which necessitate steady capacity addition in infrastructure facilities. Speedy progress and time-bound completion of infrastructure project would key factor to watch that will determine the sector performance.

The launch of flagship policies like National Infrastructure Pipeline (NIP), and PM Gati Shakti plan have provided the coordination & collaboration that was lacking earlier. Both NIP and PM Gati Shakti are ambitious billion-dollar plans that aim to transform India's infrastructure, elevating it to the next level. These projects are expected to improve freight movement, debottleneck the logistics sector, and improve the industrial production landscape, which would provide the incremental growth in GDP. In its Union Budget FY 2023, the Government has increased the capital expenditure by 35% to nearly INR 7.5 lakh crore – which indicates the strong Government focus on improving the overall infrastructure landscape in India.

Development of Domestic Manufacturing Capability

The Government launched Production Linked Incentive (PLI) scheme in early 2020, initially aimed at improving domestic manufacturing capability in large scale electronic manufacturing and gradually extended to other sectors. At present it covers 14 sectors, ranging from medical devices to solar PV modules. The PLI scheme provides incentives to companies on incremental sales of products manufactured in India. This incentive structure is aimed to attracting private investment into setting up manufacturing units and thereby beef up the domestic production capabilities. The overall incentives earmarked for PLI scheme is estimated to be INR 2 lakh crore. If fully realizing the PLI scheme would have the ability to add nearly 4% to annual GDP growth, by way of incremental revenue generated from the newly formed manufacturing units.

Strong Domestic Demand

Domestic demand has traditionally been one of the strong drivers of Indian economy. After a brief lull caused by Covid-19 pandemic, the domestic demand is recovering. Consumer confidence surveys by Reserve Bank / other institutions are points to an improvement in consumer confidence index, which is a precursor of improving demand. India has a strong middle-class segment which has been the major driver of domestic demand. Factors like fast paced urbanization and improving income scenario in rural markets are expected to accelerate domestic demand further. This revival is perfectly captured by the private final consumption expenditure (PFCE) metric. PFCE as a percentage of GDP increased to nearly 59.2 during the first half of FY 2023[1], which is the highest level it has achieved during the past few years. Although pent-up demand has played a part in this surge, this is an indication of normalization of demand.

There are two factors that are driving this domestic demand: One the large pool of consumers and second the improvement in purchasing power.

- The share of middle class increased from nearly 14% in 2005 to nearly 30% in 2021 and is expected to cross 60% by 2047 (Placeholder1)[2]. This expanding middle class household segment is fuelling India's growth story and would continue to play a key role in propelling India's economic growth.
- As per National Statistics Office (NSO) India's per capita income (in current prices) stood at INR 1.72 lakhs in FY 2023 which is nearly double of what it was in FY 2015. This increase in per capita income has impacted the purchasing pattern as well as disposable spending pattern in the country. Consumer driven domestic demand is majorly fuelled by this growth in per capita income.

Digitization Reforms

Ongoing digitization reforms and the resultant efficiency gains accrued would be a key economic growth driver in India in the medium to long term. Development of digital platforms has helped in the seamless roll out of initiatives like UPI, Aadhaar based benefit transfer programs, and streamlining of GST collections. All of these have contributed to improving the economic output in the country. Some of the key factors that have supported the digitization reforms include – the growth in internet penetration in India together with drop in data tariffs, growth in smartphone penetration, favourable demographic pattern (with higher percentage of tech savy youth population) and India's strong IT sector which was leveraged to put in place the digital ecosystem. All these factors are expected to remain supportive and continue to propel the digitization reforms in India.

[1] India Economic Survey FY 2023, Full year data is yet to be released.
[2] As per the survey conducted by People Research on India's Consumer Economy. Households with annual income in the range of INR 5 – 30 lakh is considered as middle class households.

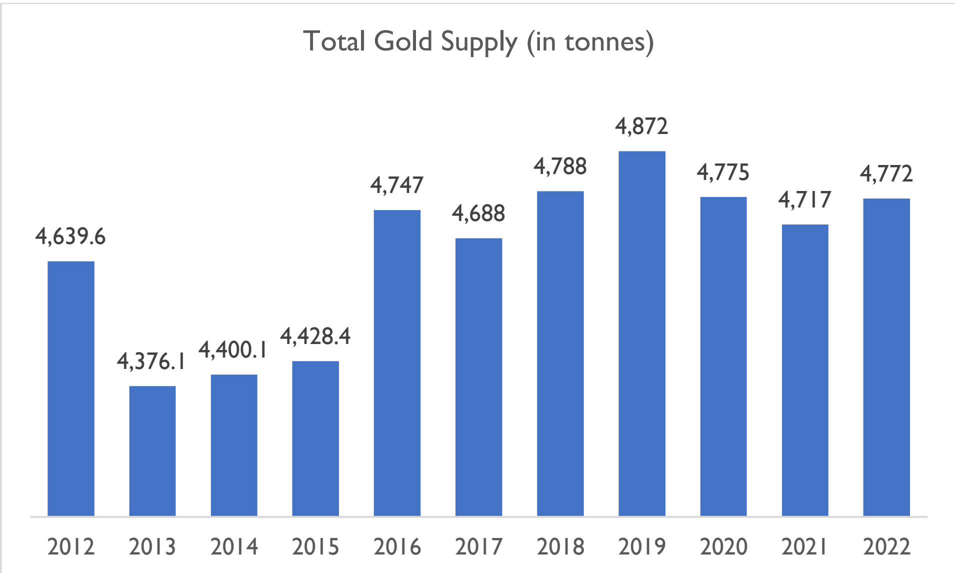
Global Gems and Jewellery Industry

Global Gold Production Scenario

The global gems and jewellery industry is a compelling blend of artistry, culture, and commerce that has consistently fascinated societies for centuries. With a rich history rooted in tradition and opulence, this sector encompasses the mining, cutting, crafting, and trading of precious gemstones and fine jewellery. This industry is marked by a diverse range of precious metals and gemstones, including gold, silver, diamonds, emeralds, rubies, sapphires, and many others, which are set into jewellery pieces ranging from traditional to contemporary designs.

The gold business is multifaceted with a dynamic landscape. Gold, one of the world's most precious and coveted metals, finds its use in jewellery and coinage, as well as a symbol of wealth and a hedge against economic uncertainties. Today, the global gold market is a complex ecosystem with numerous stakeholders, including miners, refiners, investors, and jewellery manufacturers, each contributing to the intricate web of supply and demand.

The total global gold supply, encompassing mine production, recycling, and net central bank purchases, saw a decline in the years 2013-2015. This was majorly driven by the declining gold recycling component of supply, as against the mining production. Furthermore, there was a significant drop in gold prices during this period, which led to slow-paced gold mining.



Source: World Gold Council, and D&B Research. Does not include producer hedging.

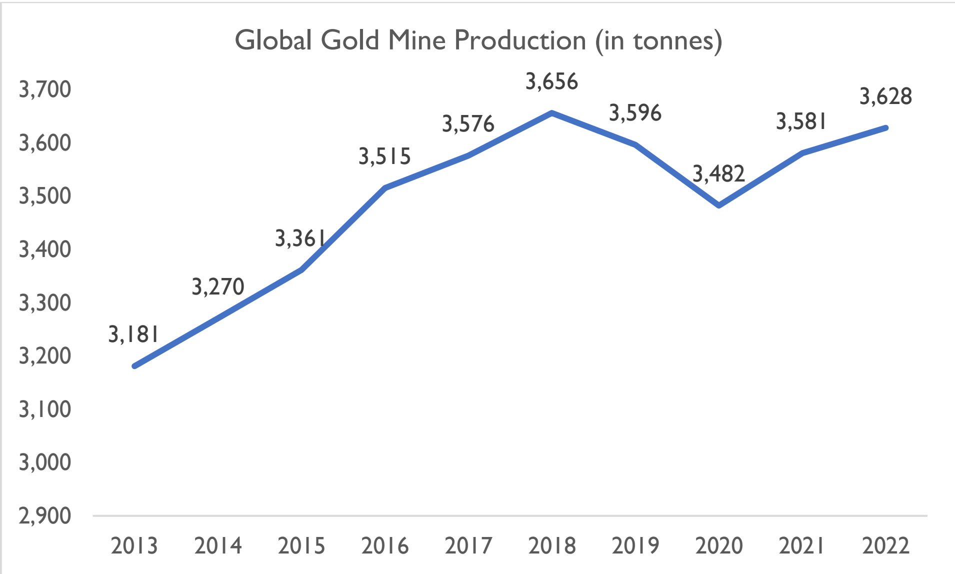
After three years of suppression, gold prices started to rebound and the economic viability of gold mining improved, incentivizing higher production levels. Furthermore, gold recycling also saw a considerable uptick. The broader economic landscape, including concerns about inflation and geopolitical instability, influenced the demand for gold as a safe-haven asset, driving increased production to meet this heightened demand. Collectively, these factors reversed the declining trend in gold supply, resulting in a supply upturn of 7.2% in 2016 following three-year lows of 2013-15.

After reaching a record 10-year high of 4,872 tonnes in 2019, the gold supply experienced a significant drop in the following years due to the economic disruptions caused by the COVID-19 pandemic. The pandemic's impact on mining operations, logistical challenges, and market uncertainty led to reduced gold production during the years. However, in 2022, the gold supply showed signs of rebound, with a year-on-year growth of 1.16%, indicating a partial recovery from the disruptions caused by the COVID-19 pandemic.

Components of Gold Supply

Mining production

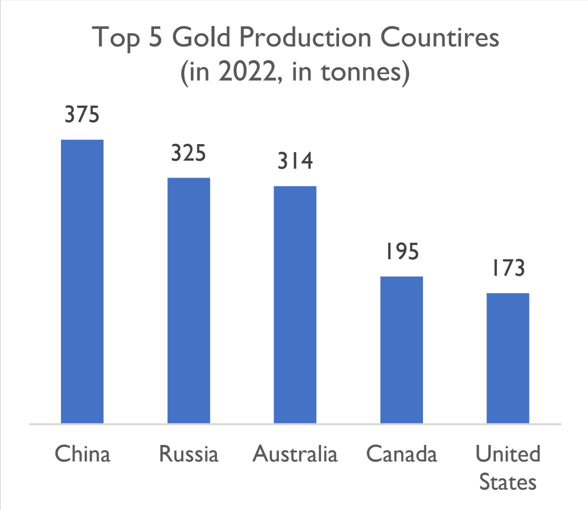
Amidst the ever-evolving landscape of the precious metals industry, Gold's supply comprising of mining production has been seen to rise. Almost a decade ago, the gold production from mines stood at 3,181 tonnes. Over the subsequent years, from 2013 to 2022, production has steadily risen at a CAGR of 2.12%.

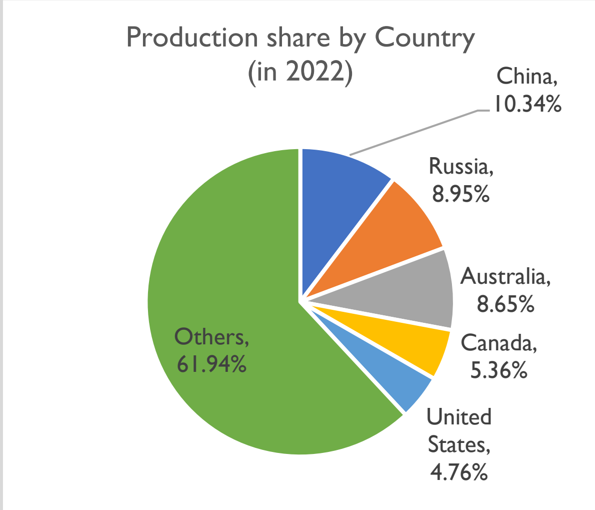


Source: World Gold Council

Now, the total production of Gold from mines reached 3628 tonnes in 2022, a year-on-year of 1.31% over 2021. Even in the face of unforeseen setbacks brought on by the COVID-19 pandemic, the mining of gold demonstrated remarkable resilience, bouncing back swiftly, and resuming its ascent.

Geographically, gold production from mines is distributed across several key regions, with countries like China, Russia, Australia, Canada and USA emerging as major players.



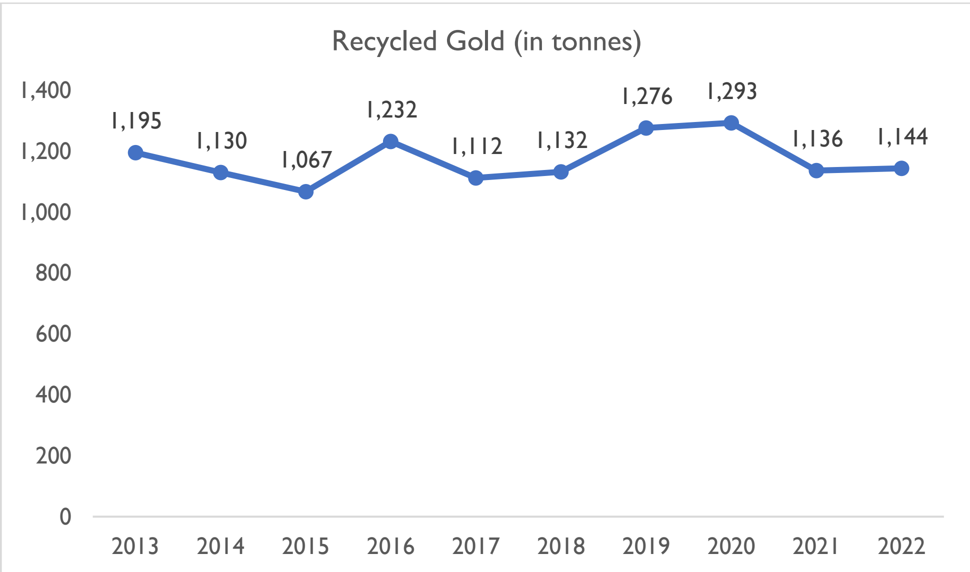


Source: World Gold Council

China led with 375 tonnes and a 10.34% share in the total gold mined production. This was followed by Russia (8.95%), Australia (8.65%), Canada (5.36%), and United States (4.76%).

Recycled Gold

Recycled Gold, forming another key component within the overall gold supply landscape, adds an essential dimension for an understanding of the industry. As the world becomes increasingly conscious of environmental responsibility, the recycling of gold has gained significance, contributing to the sustainable sourcing of this precious metal.



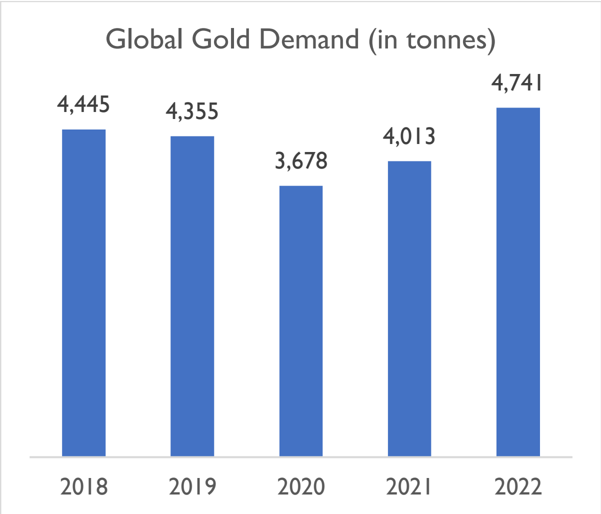
Source: World Gold Council

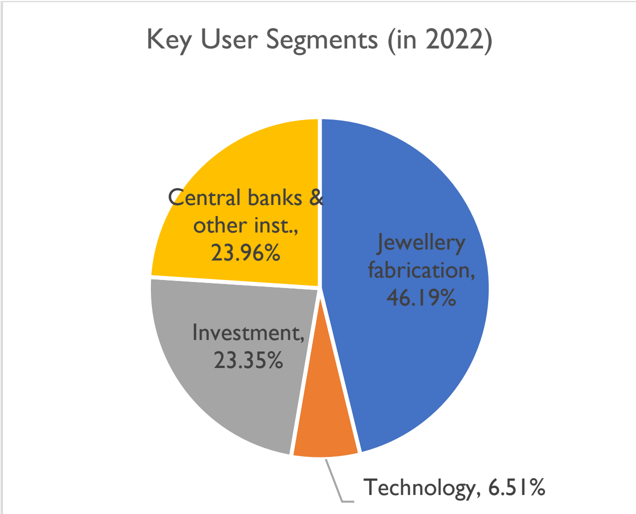
In response to the declining gold prices during 2013-2015, gold recycling also dropped. Being volatile in nature, the shifts in gold prices significantly influence recycling rates, with high prices encouraging recycling and low prices discouraging it. Economic conditions, consumer demand for new gold products, technological advancements, environmental regulations, and geopolitical events also play roles in determining the quantity of gold recycled. This is highly evident in the rise of 2020, where gold prices rose drastically during the covid-19 period.

This ebb and flow of recycled gold volumes reflect the dynamic nature of this industry and the evolving preferences of both consumers and producers. The interplay of these components—primary gold production, and recycling—paints a comprehensive picture of the gold supply chain. As the world continues to evolve, so does the supply of gold, adapting to changing economic, social, and environmental paradigms while maintaining its enduring allure in the global market.

Global Gold Demand Scenario

After nearly a decade, the global demand for gold witnessed a resurgence, reaching a notable high of 4,740.7 tonnes in 2022. This demand trajectory reveals the remarkable resilience and enduring allure of gold as a valuable asset. Notably, the year 2020 saw a significant dip in demand, approximately 16%, primarily attributed to the far-reaching disruptions caused by the COVID-19 pandemic, which temporarily altered consumer behaviour and investment strategies. However, this decline was followed by a remarkable rebound in 2022, with a substantial 18.14% increase in gold demand, signalling a renewed interest in the metal.





Source: World Gold Council

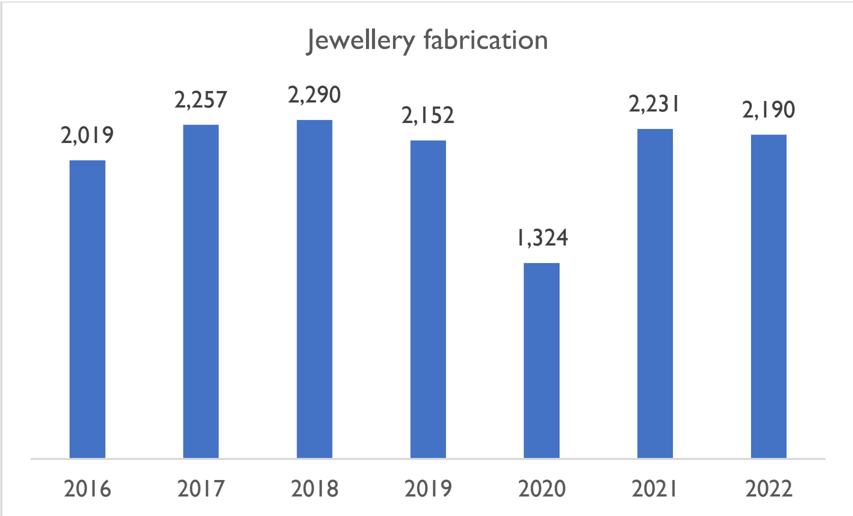
Jewellery fabrication stands as the prominent user segment propelling gold demand, accounting for a substantial share of 46.19%. This segment highlights the enduring cultural and aesthetic significance of gold. Beyond personal adornment, gold continues to play pivotal roles in the financial and industrial sectors. Central banks and other institutions, responsible for safeguarding economic stability and wealth preservation, collectively contribute 23.96% to the gold demand.

Furthermore, investors seeking a reliable store of value in times of economic uncertainty make up a significant portion of gold's demand, representing 23.35% of the market. Additionally, technology applications, such as electronics and dentistry, contribute 6.51% to the overall demand, reflecting gold's indispensable role in these fields. This diverse demand scenario brings out the diverse nature of gold's appeal, combining tradition, finance, technology, and stability in a continually evolving global landscape.

Jewellery Fabrication

Jewellery fabrication is the art of transforming raw materials like precious metals and gemstones into intricate wearable pieces. Craftsmen employ various techniques, from cutting to casting, to create unique designs with precision and attention to detail.

Jewellery demand in 2016 faced a partial decline, predominantly due to a slowdown in the Indian as well as the Chinese market, two of the world's largest consumers. Economic challenges and government policies impacted consumer spending. However, between 2016 and 2018, the global Jewellery market experienced a notable resurgence, driven by renewed consumer confidence, improved economic conditions, shifting preferences, and innovative marketing strategies. This period marked a growth phase, rekindling interest in Jewellery and reflecting a positive trajectory for the industry.

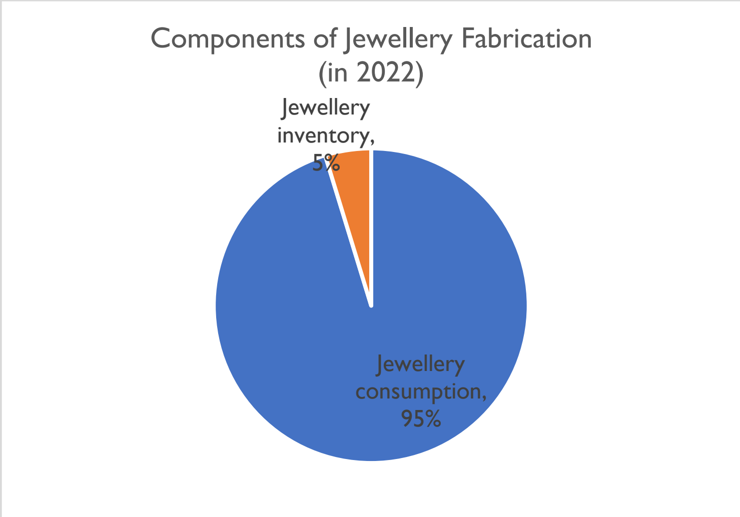


Source: World Gold Council

In 2019, the overall jewellery fabrication market faced a slight 6% decline. However, the year 2020 was marked by even more significant setbacks, reporting a steep 38% annual decrease in demand. This substantial decline can be attributed to the unprecedented impact of the COVID-19 pandemic, which disrupted supply chains, closed retail outlets, and altered consumer spending patterns, leading to a substantial downturn in the jewellery market during that year.

Nonetheless, the jewellery market rebounded strongly in 2021, experiencing a remarkable 68% increase in demand. This resurgence can be largely attributed to pent-up consumer demand, as the industry recovered from the setbacks of the preceding year, with consumers eager to make delayed purchases and indulge in jewellery shopping once again.

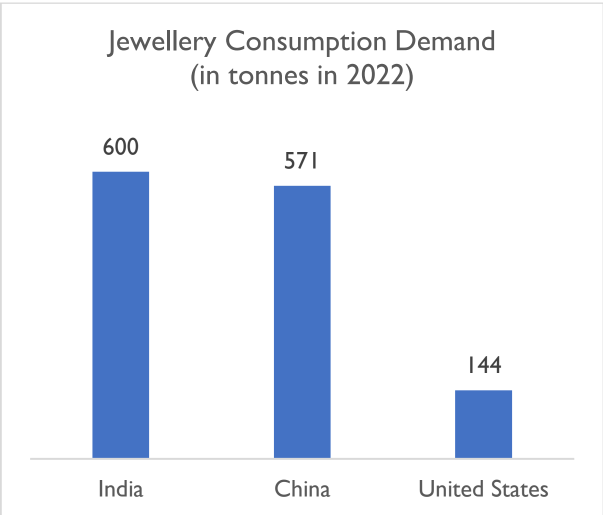
The resumption of celebratory occasions such as weddings, engagements, and anniversaries further invigorated demand, particularly for engagement rings, wedding bands, and celebratory jewellery. The continued growth of e-commerce continued to play a pivotal role, making it more convenient for consumers to shop for jewellery online, particularly during periods of restricted in-person shopping. Some consumers also turned to jewellery as an investment during times of economic uncertainty, driving up demand for precious metals and stones.

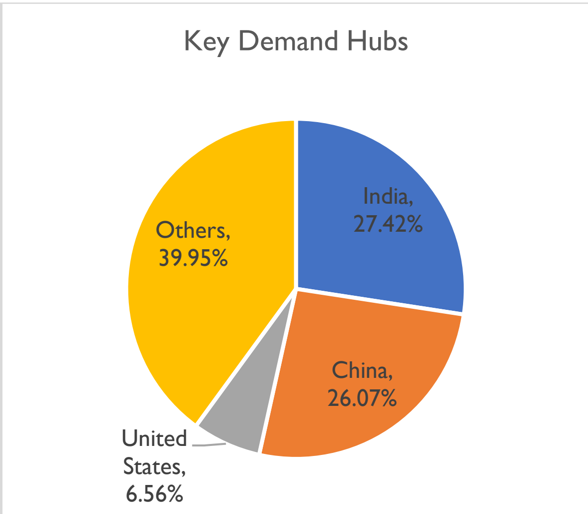


Source: World Gold Council

Jewellery fabrication demand is majorly made up of two factors: Jewellery Consumption and Jewellery Inventory. Fabrication demand in 2022 was majorly driven by the consumption aspect, accounting for a 95% share in the total demand.

Within the consumption aspect, the three key markets driving the demand are India, China, and USA. Together, these countries account for 60% of the total market share for gold jewellery demand.





Source: World Gold Council

India takes the leading share, with a demand for 600 tonnes in 2022, taking up w 27.42% share in the total demand. This is followed by China with 571 tonnes of demand and a 26% share, and United States with 114 tonnes of demand and a 6.56% share. The rest of the world accounted for a 40% share in the total market.

Global Gems Market

Gemstones, these precious mineral elements used in crafting jewellery and various ornaments after cutting and polishing, are prized for their innate hardness. Their aesthetic appeal extends beyond adornments to include decorative items and luxury art pieces like intricate hard stone carvings and vintage gems. Some gemstones undergo special treatments to mimic other precious stones, serving as imitation gemstones in jewellery. Examples of such imitation gemstones include cubic zirconia and synthetic moissanite, a synthetic diamond substitute. Key products in the gemstones market comprise diamond, ruby, sapphire, and emerald, among others.

Diamonds have predominantly occupied a substantial share of demand in the total gemstones market. According to estimates, the global rough diamond production in 2022 reached an approximately 118 million carats. One of the main market drivers is the rising global demand for luxury goods. As more individuals pursue high-end products, the demand for high-quality gemstones has surged, offering consumers a range of options, from traditional diamond jewellery to vibrant birthstone pieces. Notably, the Gen Z and Gen Y populations are prime target consumers in the gemstones market.

The increasing interest in coloured gemstones and crystals has significantly contributed to market expansion. Particular gemstones such as emeralds, rubies, and sapphires have lately witnessed heightened demand as consumers seek unique and eye-catching jewellery pieces. This trend has created new opportunities for gemstone producers and retailers. Diamonds, known for their expense and desirability, remain a cornerstone of the market.

The global gemstones market is poised for steady growth, primarily driven by the growing demand for artificial, lab-grown diamonds. These lab-grown diamonds offer cost-effective alternatives, as the production costs are significantly lower than those of natural diamonds. Among the products in the global gemstones market, diamonds are expected to experience consistent growth, particularly due to the rising demand for diamond jewellery among Gen Y and Gen Z consumers. Organized sales through specialty jewellery stores that offer a comprehensive range of services are likely to increase, driven by significant shifts in consumer purchasing behaviour. This change is attributed to the introduction of gemstone authenticity certifications and hallmarking.

With a consistent rise in consumer demand for luxury products and a growing interest in innovative alternatives like lab-grown diamonds, the market showcases significant growth potential. The gemstone sector is not only deeply rooted in tradition, offering timeless pieces of jewellery, but it also adapts to evolving consumer preferences, providing a wide array of gemstone options to cater to diverse tastes. As the global gemstones market continues to evolve and embrace new technologies and ethical sourcing, it remains a captivating realm for both industry players and discerning consumers alike.

Global Trade Scenario

The global gems and jewellery industry presents a complex and dynamic landscape that involves a multitude of factors, including economic, social, and cultural considerations. The market encompasses a wide range of products, from diamonds and gemstones to gold, silver, and platinum. The market's value is highly influenced by consumer demand, fashion trends, and prevailing economic conditions.

Key players in the global gems and jewellery trade include countries like India, China, the United States, and various Middle Eastern nations. India is renowned for its expertise in diamond cutting and processing, while China has emerged as a major hub for jewellery manufacturing. Diamonds represent a critical element of this industry, with major diamond trading centres in Antwerp, Tel Aviv, and Dubai. The Kimberley Process Certification Scheme has been established to prevent the trade in "blood diamonds" associated with conflict and human rights abuses.

Gemstones, including rubies, emeralds, and sapphires, are sourced from various countries such as Myanmar, Colombia, and Sri Lanka. The demand for unique and rare gemstones continues to drive trade in this sector. Gold and silver remain popular choices for jewellery, with countries like China and India being significant consumers. These precious metals also serve as investment vehicles, impacting global trade patterns.

The growth of e-commerce has significantly impacted the trade in gems and jewellery. Online platforms have provided consumers with a wider selection and the ability to compare prices and styles easily, further transforming the way this industry operates.

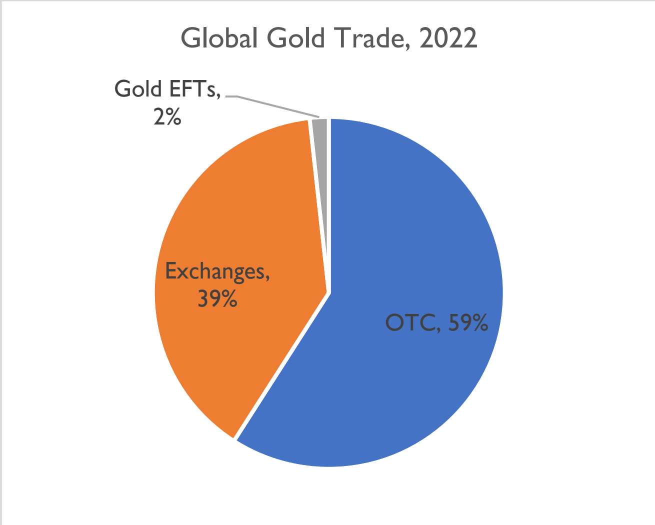
Trading Volumes

The total global gold market liquidity averaged at USD 131.62 billion every day in 2022. Within this, Over the Counter[3] (OTC) trade averaged at USD 77.75 billion, accounting for 59% of the total trade volumes in 2022.

Exchanges recoded 39% of the trade volumes, recording a daily average of USD 51.57 billion. Exchanges comprised of COMEX, Shanghai Futures Exchange, Shanghai Gold Exchange and All other exchanges[4].

[3] OTC comprises of LBMA Trade Data volumes, Non-LBMA Trade Data and Shanghai Gold Exchange OTC trade data.

[4] All other exchanges include gold contracts traded on: London Metal Exchange, Dubai Gold & Commodities Exchange, ICE Futures, US Metals, Borsa Istanbul, Bursa Malaysia, Moscow Exchange - RTSX, Tokyo Commodity Exchange.



Source: World Gold Council

Gold EFTs recorded a daily average volume of USD 2.3 billion. North America recorded the leading volume of transactions at an average of USD 1.97 billion, while Asia and Europe recorded USD 220 million and USD 90 million respectively. Other regions accounted for a daily average of USD 20 million.

Global Growth Outlook

The global gold demand is expected to remain positive. Gold, as a symbol of wealth and stability, is positioned to maintain its relevance in an evolving global economy and geopolitical landscape. The biggest contributor to the overall gold demand, Jewellery fabrication, is driven by large economies such as India, China, the Middle East, and the Americas. As these economies continue to grow, the demand for gold jewellery remains stable and contributes to overall global demand. The cultural significance of gold in these regions further bolsters its appeal.

Central banks and other institutions, responsible for safeguarding economic stability and wealth preservation, have been diversifying their reserves by increasing their gold holdings, particularly in emerging economies. This trend is expected to persist and continue driving demand for gold in the medium to long term.

Investors seeking a reliable store of value in times of economic uncertainty also contribute to gold demand. During periods of economic turmoil or uncertainty, gold's appeal as a safe-haven asset tends to rise, leading to increased investment demand for gold, including gold ETFs, bars, and coins.

Additionally, the rising use of technology applications, such as in electronics and dentistry, has introduced a growing segment of industrial demand for gold. This demand is driven by technological advancements and is likely to continue increasing in the foreseeable future.

In the short term, global gold demand is expected to remain robust. This is influenced by ongoing economic uncertainty, low-interest rates, and geopolitical tensions. The recent war between Israel and Palestine in October 2023, for geopolitical reasons, has further heighten these tensions, potentially leading to a surge in gold demand as investors seek safe-haven assets. Over the medium term, growth is underpinned by increasing investment demand, steady jewellery demand from emerging markets, and the ongoing central bank purchases, all contributing to the upward trajectory of gold demand. In the long term, gold demand is projected to stabilize.

Thus, Gold, with its enduring appeal as both a safe haven and a symbol of wealth, stands to thrive. In a world of evolving uncertainties, gold's resilience and adaptability position it as a reliable asset, suggesting a promising trajectory for its demand on the global stage.

Indian Gems & Jewellery Sector

Overview

The gems and jewellery industry in India is deeply rooted in its rich heritage and culture. From auspicious symbols to elaborate pieces worn during celebrations, Indian jewellery embodies a cultural legacy that resonates with buyers who seek not just adornments but also stories and traditions.

In contemporary times, the Indian gems and jewellery sector continues to shine brightly on the global stage. It plays a pivotal role in the country's economic landscape, contributing a remarkable 7% to India's GDP. With over 5 million skilled and semi-skilled workers, this sector contributes approximately 10-12% of India's total merchandise exports, establishing itself as the third-largest commodity share in the country. Notably, in FY 2023, the domestic gems and jewellery market was valued at approximately Rs 4,700 billion, and gold jewellery was the leading segment.

Despite such advances, the gems and jewellery manufacturing industry remain fragmented, primarily controlled by small and medium-sized enterprises. According to the World Gold Council, around 15-20% of units operate as organized, large-scale facilities, comprising of automated machinery, skilled artisans, and quality control processes to mass-produce jewellery items. These facilities marked a notable increase from less than 10% about five years ago. Particularly, the emergence of chain stores over the last 10-15 years, at the expense of independent retailers, has been a noteworthy development. This trend continues, with a consistent increase in market share, reaching 35% by 2021, up 5% since 2016.

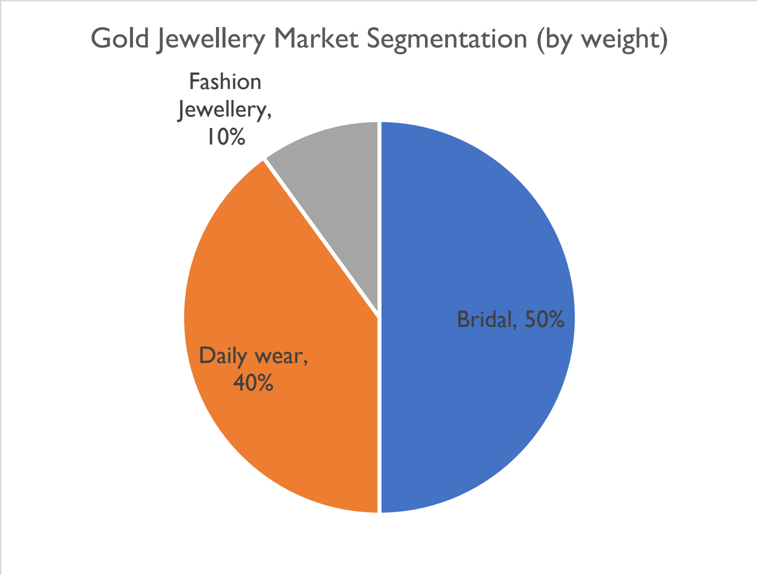
These dynamics coupled with the rise of a more discerning consumer base has led to a perceptible shift in demand patterns. The preference for branded jewellery has gained significant momentum. This inclination towards branded products is, in part, attributed to a growing urban and metro population influenced by media and western sensibilities. Buyers, particularly in metro and Tier I cities, are more inclined to invest in branded jewellery, recognizing the value of authenticity, design, and quality that these brands offer.

This shift in consumer behaviour and demand pattern is steering the industry towards a more organized and branded landscape. The establishment of jewellery parks will support manufacturers in this endeavour, simultaneously addressing the rising apprehensions shared by retailers and consumers regarding ethical standards and the working conditions of artisans. With several major players choosing to exclusively partner with organized manufacturers, the market share of organized manufacturers is expected to further solidify its position.

Segmentation

Indian jewellery consumption can be categorized into three distinct segments: bridal, everyday wear, and fashion jewellery. These segments each have their unique attributes, offering various products, sizes, and designs. However, some items like bangles and chains are versatile and not exclusive to a single category.

Nevertheless, they can be categorized based on their size and weight to determine the appropriate segment they belong to.



Source: D&B Research

Bridal jewellery captures a significant 50% share of the market due to its substantial demand driven by cultural and traditional factors. In India, weddings hold immense cultural significance, and brides traditionally adorn themselves with intricate and ornate jewellery sets. These bridal jewellery pieces often include necklaces, earrings, bangles, and intricate headpieces, showcasing intricate craftsmanship and often featuring precious gemstones. As weddings are a once-in-a-lifetime event for many, families are willing to invest considerably in bridal jewellery, contributing to its dominant presence in the market.

In addition to the cultural significance, another essential factor contributing to the substantial market share of bridal jewellery is the concept of "streedhan." Streedhan refers to the property that a woman receives at the time of her marriage, given to her as a form of security and financial independence. This jewellery remains solely hers to keep, and it often comprises a substantial portion of bridal jewellery demand.

Furthermore, while relatively smaller, there is a secondary element of wedding-related demand originating from the jewellery gifted to the immediate family of the bride and groom. Additionally, wedding guests often purchase jewellery to adorn themselves during the celebratory occasions, further boosting the demand for bridal jewellery in the market. These combined factors make bridal jewellery a cornerstone of the gold market in India.

Thus, when we assess the gold jewellery market in terms of weight, it becomes evident that weddings and bridal attire hold a significant importance. India, with over 50% of its population under the age of 25 (and 65% under 35), along with the average age of women's marriage being 22, suggests that the annual count of weddings is poised to stay high. Given these demographics, the demand for bridal jewellery is likely to remain resilient over an extended period.

Daily wear jewellery claims a substantial 40% share of the market due to its practicality and versatility. Unlike bridal jewellery, which is typically worn on special occasions, daily wear jewellery is designed to be comfortable and suitable for everyday use. It includes items like lightweight earrings, simple necklaces, and subtle bracelets that complement a person's attire without being overly extravagant.

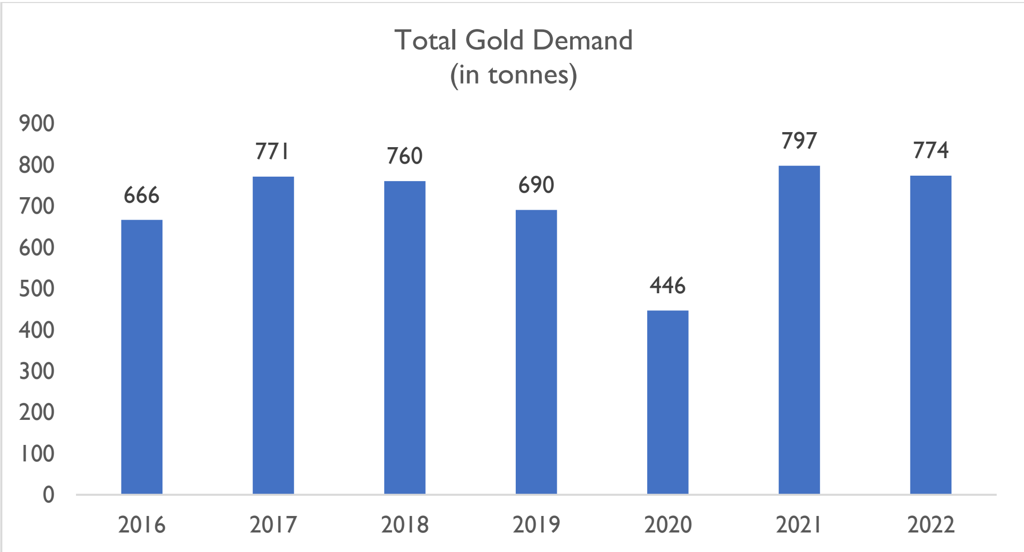
With changing lifestyles and evolving fashion trends, many individuals prefer jewellery that can be effortlessly integrated into their daily routines. This includes professionals, students, and individuals from various age groups who want to add a touch of elegance to their appearance without the need for extravagant pieces. As a result, daily wear jewellery captures a significant portion of the market share, catering to the growing demand for jewellery that's both fashionable and practical for everyday use.

Fashion jewellery accounts for a comparatively smaller 10% of the market share due to its distinctive characteristics. Unlike bridal and daily wear jewellery, fashion jewellery is often designed to follow current fashion trends. Fashion jewellery is typically seen as a more temporary accessory, meant to complement specific outfits or styles rather than serving as long-term investments. As a result, it doesn't hold the same enduring value as bridal or daily wear jewellery, making it a smaller segment in the market.

Gold demand in India

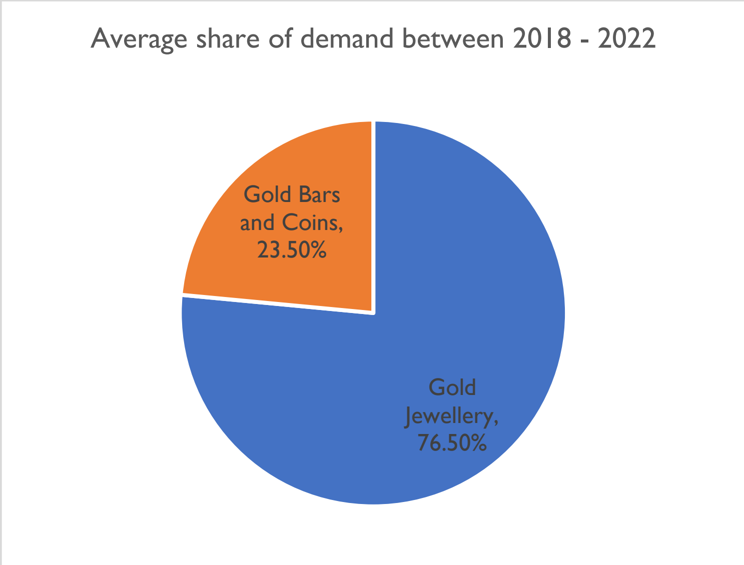
The demand for gold in India encompasses various dimensions within the country's culture, traditions, and economic structure. It is deeply embedded in the Indian way of life, symbolizing affluence and serving as a fundamental element in significant ceremonies and rituals.

The Indian gold market underwent notable fluctuations during the period spanning from 2016 to 2022. From 2016 to 2018, the market experienced growth; however, this trend shifted in 2019 with a notable decrease in demand. The year 2020 witnessed a severe disruption as the COVID-19 pandemic significantly impacted the gold market, resulting in a contraction of the industry by approximately 35%. Nonetheless, 2021 marked a noteworthy recovery, characterized by a substantial 79% increase in gold demand.



Source: World Gold Council

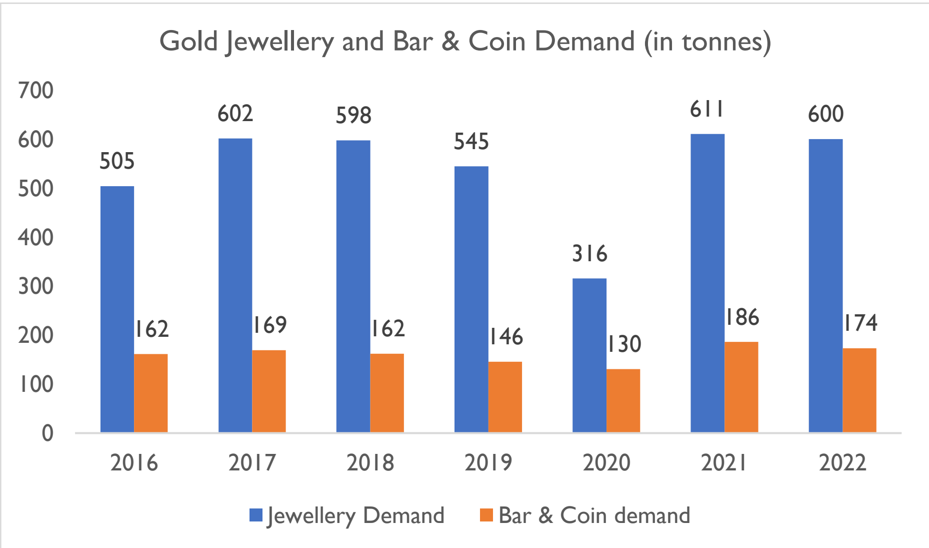
In 2022, the demand moderated, though it still surpassed pre-pandemic levels. The primary drivers of demand in the gold market included gold jewellery, gold coins, and gold bars. Between 2018 – 2022, gold jewellery has accounted for an average of 76.5% share in gold demand, while bars and coin made up 23.5%. Notably, the majority of the demand in the year 2022 came from gold jewellery, constituting around 78% of the total demand, which translated to approximately 600 tonnes of gold.



Source: World Gold Council

Similar to gold, the decline in gold jewellery and bars & coin demand in India during 2020 stemmed from the COVID-19 pandemic, observing a 42% fall in demand. Nationwide lockdowns brought retail jewellery stores and manufacturing operations to a standstill, limiting consumer access and impeding their willingness to engage in discretionary spending amidst economic uncertainty.

Furthermore, the postponement and downsizing of weddings and festivals, which are significant drivers of gold purchases, added to the weakened demand. Supply chain disruptions, causing delays in gold imports and material shortages, drove up gold prices, dissuading potential buyers.



Source: World Gold Council

With the gradual easing of restrictions in 2021, a release of pent-up demand occurred as consumers regained confidence and returned to jewellery stores. Resumption of traditional events, restoring economic conditions, and the embrace of online shopping contributed to an increase of 93% in gold jewellery demand.

Jewellery demand

2017 marked a notable 19% growth and recovery in Indian jewellery demand from year ago level. Several factors contributed to this resurgence. First, Rupee gold prices trended lower during the year, which had a positive impact on demand. The economic backdrop, including bank loan growth, provided further support for the industry. Festival demand, integral to the Indian culture, played a pivotal role in driving the rebound. Furthermore, the government's decision to remove anti-money laundering regulations from jewellery transactions eased consumer concerns and streamlined the buying process. The rural sentiment, another critical aspect of the Indian market, improved, fostering increased demand.

During this period, the market underwent a significant transformation concerning the Goods and Services Tax (GST). Organized retailers, better equipped to adapt to the GST system, benefited from this transition, expanding their share of the jewellery market. This transition marked a shift towards more organized and transparent trade practices in the sector.

In 2018, the market witnessed a moderation in growth, signalling a slowing trend in demand. However, 2019 marked a 9% drop in jewellery demand. During the second half of the year, gold prices surged to record levels in Q3 and Q4. This price increase, combined with a domestic economic slowdown and subdued rural demand, contributed to the weakness in the market. Even the traditionally auspicious Dhanteras festival failed to boost gold demand in Q4, primarily due to the higher domestic gold price and overall economic pessimism.

Interestingly, the slowdown in demand was less pronounced among the more organized national and regional chain stores. Branded chain stores, in particular, outperformed other segments of the gold jewellery market, reporting far more modest declines in sales compared to medium-sized and standalone stores. Chain stores were better positioned to offer attractive promotions during Dhanteras, and some launched new collections for Diwali and the wedding season, which helped maintain their sales volume despite the higher gold price.

India's gold market was also marked by efforts towards regulation and standardization during this period. In the opening weeks of 2020, two significant developments took place. Firstly, there was a notification regarding mandatory hallmarking for gold jewellery, ensuring a certain quality standard. Additionally, Indian gold delivery standards for gold bullion were introduced, further enhancing the market's credibility and transparency.

While 2020 showed signs of quarterly recovery in jewellery demand following the lows experienced in Q2, when market lockdowns were at their peak due to the COVID-19 pandemic, the demand remained weak in Q4. Overall, 2020 experienced extreme lows with demand dropping by as much as 42%.

2021 marked a remarkable resurgence, bouncing back from the challenges posed by the COVID-19 pandemic in 2020. Consumer demand surged, totalling an impressive 611 tonnes, with a significant upswing witnessed in the exceptional fourth quarter, primarily driven by the release of accumulated consumer interest in India.

The pattern of strong growth seen in the initial three quarters of 2021 can largely be attributed to what are known as base effects, reflecting the stark contrast with the severe weakness experienced in 2020 due to the pandemic. However, the fourth quarter offered a more balanced comparison, as Q4 of 2020 had displayed relative robustness. Jewellery demand, prevalent across the globe, demonstrated a year-on-year increase, influenced by the ongoing economic recovery and, notably, a reduction in the stringent lockdown measures implemented to control the spread of COVID.

India, in particular, witnessed substantial improvements in its market. With the gradual easing of lockdown measures from June onwards and a successful vaccination campaign, India's economy rebounded in the second half of 2021, boosting consumer confidence, particularly in urban areas. Festivals and weddings emerged as driving forces behind the robust demand observed in Q4. October, in particular, showcased strong jewellery demand due to festival purchases during Dussehra and Pushya Nakshatra, followed by a vibrant Dhanteras. Retailers reported sales volumes that surpassed pre-pandemic levels, indicating renewed consumer optimism.

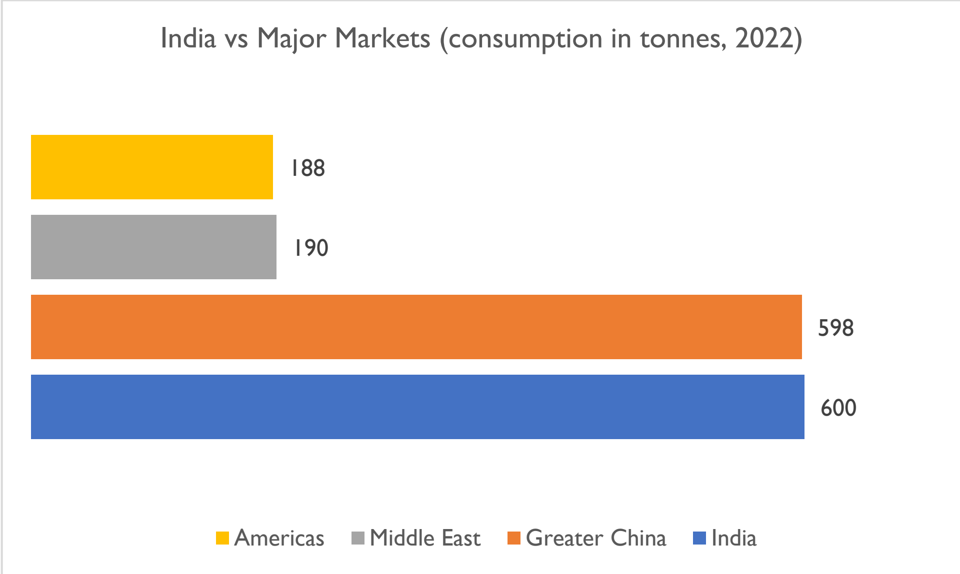
The influence of weddings further heightened jewellery demand during the quarter. The release of pent-up demand from weddings that had been postponed during Q2 and rescheduled for Q4 in 2021 provided a significant boost. Additionally, the higher number of auspicious wedding days further fuelled demand, while rural regions benefited from favourable monsoon rainfall.

While 2022 saw a 2% decline in gold jewellery demand in India, it is noteworthy that the absolute annual total remained robust at 600 tonnes. This level of demand is in line with the annual average observed over the 10-year period preceding the COVID-19 pandemic, despite challenges posed by high and rising local gold prices at various points during the year. The final quarter of the year displayed exceptionally strong demand during the festive period, with notable sales increases indicative of renewed consumer enthusiasm, particularly when compared to the previous year's strong festival demand. Wedding-related purchases also contributed significantly to the overall demand, reaffirming the enduring popularity of gold in India.

The future of gold jewellery demand in India holds a promising outlook, driven by the dual engines of a growing middle-class population and an increase in disposable income. As more individuals enter the middle-class segment, their affinity for gold jewellery, deeply rooted in culture and tradition, expands in parallel with their financial capacity.

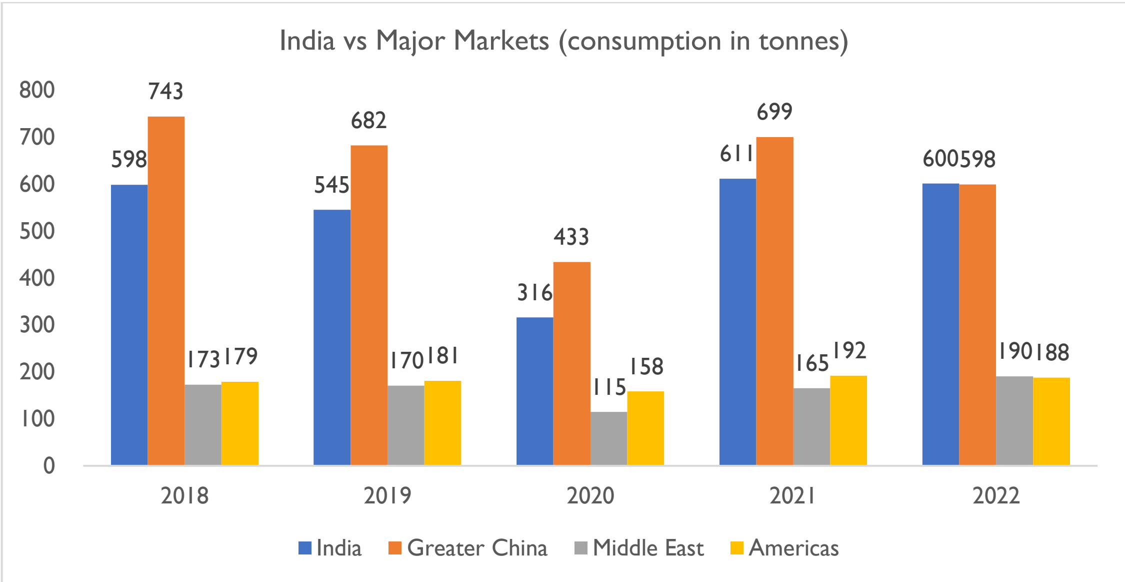
India's consumption v/s major markets

India's consumption of gold jewellery stands out as a significant and distinctive trend when compared to other major regional markets. With a rich cultural heritage and longstanding traditions deeply interwoven with gold, India has consistently remained one of the world's largest consumers of gold jewellery.



Source: World Gold Council

As a country, India ranked second in terms of worldwide consumption of gold jewellery until 2021. India's strength in this realm becomes particularly evident when we contrast it with regional markets comprised of multiple countries. Historically, Greater China, comprising of China mainland, Hong Kong and Taiwan, has taken the lead. However, in 2022, India surpassed Greater China with 600.4 tonnes of gold jewellery demand.



Source: World Gold Council

Greater China, the leading regional player in gold jewellery demand, experienced a 14.4% decline in 2022. This decline can be attributed to the persistent impact of the COVID-19 pandemic in the region. The continued presence of COVID-19 restrictions, ranging from reduced footfall in retail stores to constrained social gatherings and festivities, adversely affected the buying sentiment. Moreover, the surging prices of gold within the domestic market posed a deterrent for potential buyers.

Other regional markets such as Middle East and Americas, exhibited varying trends. While Americas, comprising of United States, Canada, Mexico and Brazil has historically taken the leading share in demand after India and China, Middle East comprising of Saudi Arabia, UAE, Kuwait, Egypt, Iran and Other nations has outpaced it to account for 190.4 tonnes of gold jewellery demand in 2022.

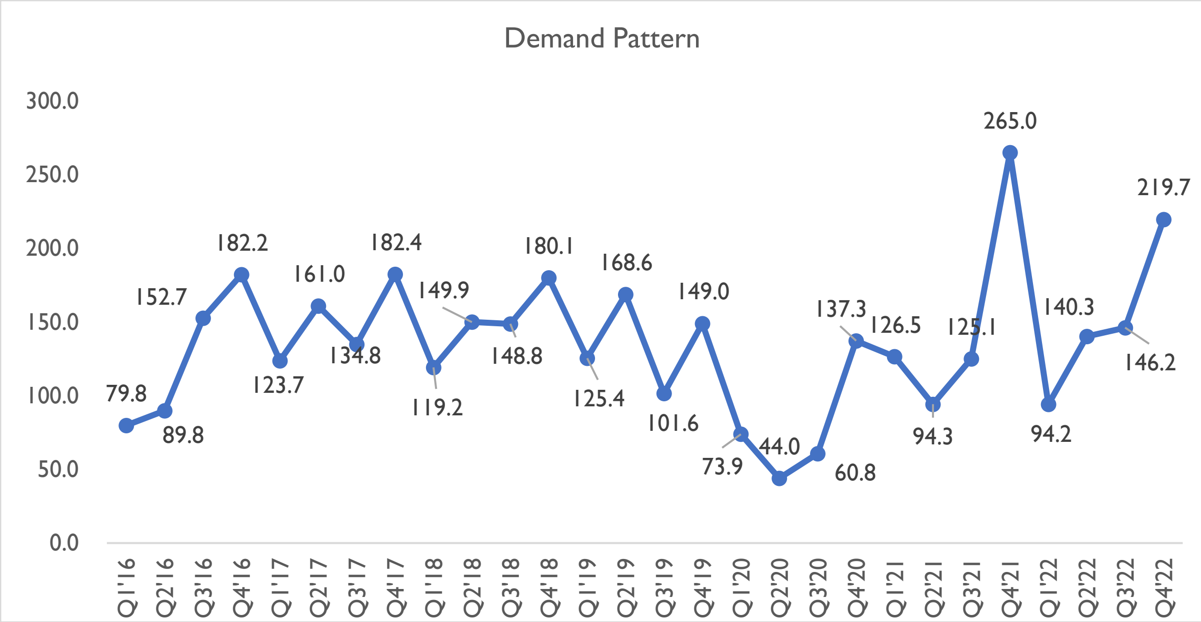
India's rise as the leading consumer of gold jewellery can attributed to the unparalleled cultural and religious significance of gold in India. It is deeply embedded in Indian traditions, making gold jewellery an integral part of various ceremonies and celebrations. Additionally, India's large population, particularly the sizeable middle-class segment, contributes to substantial demand. As more individuals ascend into this segment, they gain the financial capacity to invest in gold jewellery. This expanding middle class is a substantial consumer base that seeks to embrace both the cultural and financial significance of gold. Moreover, gold serves as a practical investment in a country where traditional financial instruments can be perceived as less stable. With its intrinsic value and the ability to withstand economic uncertainties, gold becomes a preferred choice for those seeking a safe haven asset.

Compared to other regional markets, India's demand for gold jewellery stands out for its cultural depth and economic relevance. While other markets have their own unique reasons for gold consumption, India's blend of culture, tradition, and economic factors continues to make it a standout market. This distinctiveness not only reflects the enduring importance of gold in India but also signals its bright and resilient future as the world's largest consumer of gold jewellery.

Demand Pattern

The gold jewellery buying patterns in India are deeply influenced by cultural, religious, and economic factors, often revolving around significant festivals and celebrations. These patterns are not only a reflection of tradition but also a testament to gold's enduring significance in the country's culture.

In the years preceding the pandemic, a trend of rise in demand during Quarters 2 & 4, and a fall in Quarters 1 & 3 is evident. Post pandemic, the industry was yet to moderate, on the back of economic uncertainties. The increased demand for gold jewellery observed in India during the Q2 and Q4 of a calendar year can be understood within the context of the country's rich cultural traditions and significant festivals.



Source: World Gold Council

In Q2, the celebration of Akshay Tritiya, which usually falls in April or May, serves as a powerful catalyst for increased demand. This auspicious day is synonymous with new beginnings and boundless fortune, making it an ideal time to invest in gold jewellery. Families view Akshay Tritiya as an opportunity to celebrate their prosperity and ensure a fortunate future by purchasing gold.

In Q4, the influence of festivals like Diwali and Dhanteras drives up demand. Diwali, the Festival of Lights, typically occurs between October and November, while Dhanteras, a day dedicated to buying new utensils and gold, precedes Diwali. During these festivals, the entire nation becomes immersed in a celebration of wealth, prosperity, and familial bonds. Gold jewellery, symbolic of this prosperity, experiences heightened demand as it is exchanged as gifts and worn during the festivities.

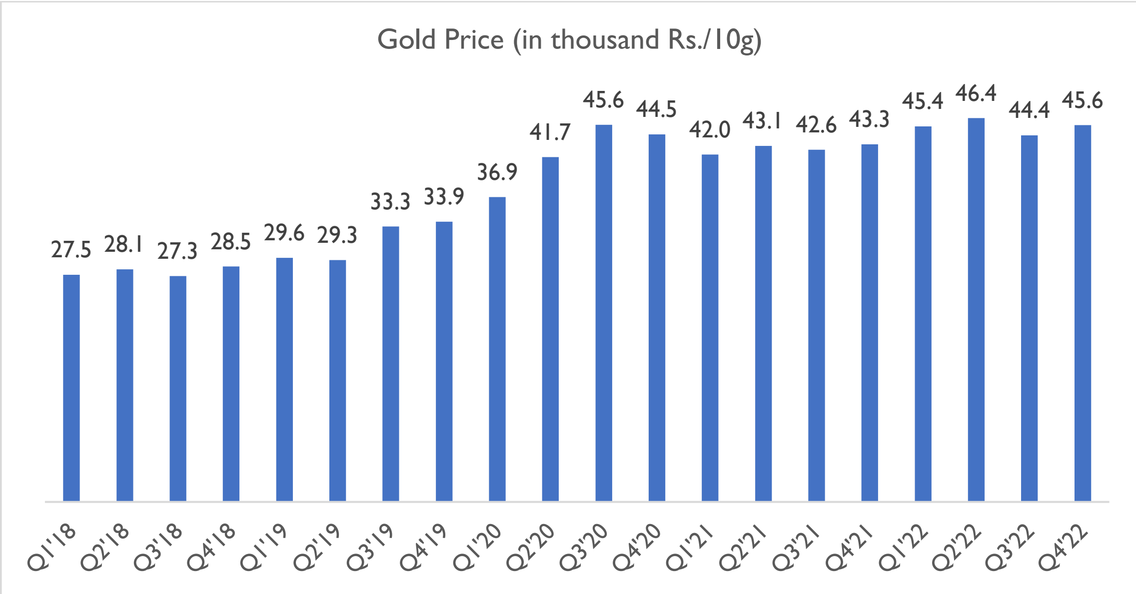
Typically, approximately 40-60 tonnes of gold are traded in India during just these two significant festivals. Underscoring the significance of these events, the household survey conducted by the India Gold Policy Centre at IIM Ahmedabad (IGPC-IIMA) revealed that festivals constitute the primary occasion for gold purchases for 65-70% of respondents, with Dhanteras and Akshaya Tritiya contributing to 30-35% of these acquisitions.

Wedding celebrations, a cornerstone of Indian culture, remain a potent driver of gold jewellery demand. Weddings in India are grand affairs, and gold plays a pivotal role. Wedding jewellery, often seen as a repository of wealth and a symbol of familial heritage, is purchased months in advance. The bride and groom, along with their families, invest significantly in wedding jewellery, which often includes intricate gold pieces. It's not unusual for families to allocate a substantial portion of their budget to gold jewellery during wedding preparations.

Lastly, rural demand after the harvest season also fuels gold jewellery buying patterns. Following the harvest, rural households often allocate a portion of their earnings to invest in gold. The months following the harvest, such as November and December, witness heightened demand as agrarian communities celebrate their prosperity.

Gold price trends

Gold prices in India exhibit a distinctive pattern influenced by seasonal demand, predominantly driven by festivals and wedding celebrations. This temporal ebb and flow of demand plays a pivotal role in shaping the pricing dynamics of gold in the country.



Source: World Gold Council

Across the calendar years of 2018 – 2022, the second quarter of the year, Q2, witnesses a notable upsurge in gold prices. This is driven by the celebration of Akshay Tritiya, which usually falls in April or May, serves as a powerful catalyst for increased demand. Similarly, the fourth quarter of the year, Q4, witness a rise in prices as well.

Thus, seasonal demand patterns exert a discernible influence on the fluctuating gold prices in India, as exemplified by the following price trends during the calendar years of 2018 – 2022. In Q2 and Q4, gold prices consistently rise, reflecting the heightened demand during these periods. For instance, Q2'18 saw prices at Rs. 28.1 thousand, a rise from Rs. 27.1 thousand in Q1'18 while in Q4'18, they reached Rs. 28.5 thousand from Rs. 27.3 thousand in Q3'18, indicating the influence of festivals and cultural celebrations. Similarly, talking about Q2'22, prices touched a high of Rs. 46.4 thousand, a rise from Rs. 45.4 thousand in Q1'22 while in Q4'22 prices increased to Rs. 45.6 thousand, up from Rs. 44.4 thousand in Q3'22. This pattern can be seen across the sample period, attributed to the impact of Akshay Tritiya, Diwali, Dhanteras, and harvest season underscoring the role of these festivals in driving gold prices.

However, the sharp increases in gold prices during all quarters of 2020 is majorly driven by the impact of the global coronavirus pandemic. The pandemic had a profound impact on the financial landscape, leading to heightened uncertainty and volatility in markets worldwide. Investors sought refuge in safe-haven assets like gold, causing a surge in demand that transcended national boundaries. This resulted in price spikes not only in India but across the globe. Gold, being a reliable store of value in times of economic turmoil, experienced a meteoric rise in its valuation, demonstrating its enduring appeal as a hedge against economic instability.

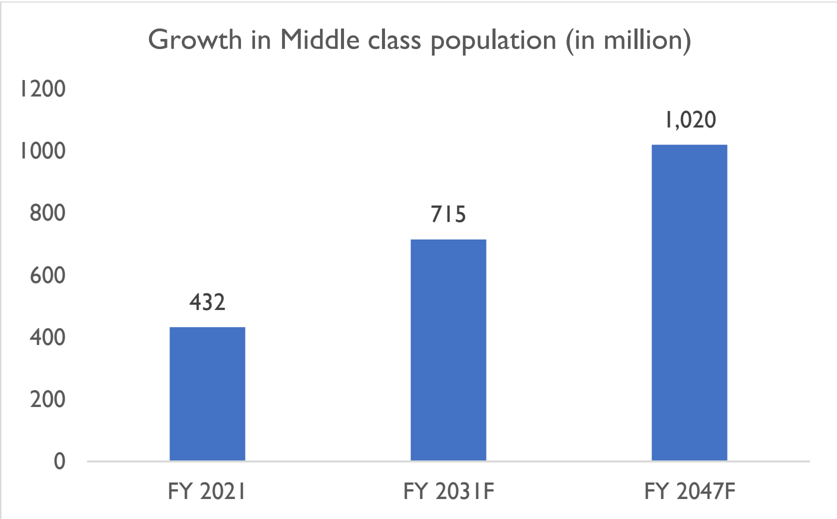
This interplay of seasonal demand patterns and external factors like the coronavirus pandemic profoundly influences the price dynamics of gold in India. The cultural celebrations and the global economic landscape both contribute to the fluctuations in gold prices, shaping the precious metal's significance in India and beyond.

Domestic Demand Scenario

Factors driving demand for gems & jewellery products in India.

Growing Middle-class population

The remarkable growth of India's middle class represents a significant phenomenon. This segment is characterized not only by increased income but also by evolving lifestyles and aspirations. According to the People Research on India's Consumer Economy (PRICE), India's middle class is projected to nearly double, reaching 61% of the total population by 2047, a substantial increase from the 31% recorded in 2020-21. This growth is expected to occur in conjunction with political stability, economic reforms, and a sustained annual growth rate of 6% to 7% over the next 25 years, positioning India as one of the world's largest markets.



Source: People Research on India's Consumer Economy

This transformation anticipates the expansion of the middle class from 432 million individuals in 2020-21 to 715 million (or 47% of the population) in 2030-31, ultimately reaching 1.02 billion within India's projected population of 1.66 billion in 2047. Consequently, by the end of the decade, India's demographic structure will transition from an inverted pyramid, symbolizing a small affluent class and a large low-income class, to a rudimentary diamond shape, with a substantial portion of the low-income class moving up to become part of the middle class.

As these individuals and families ascend the economic ladder, their inclination towards gems and jewellery intensifies. For them, jewellery ownership is a manifestation of their improved financial status and a symbol of success. The appeal of wearing exquisite pieces on special occasions and as daily adornments acts as a compelling driver of demand within this demographic.

Improving Economic Landscape

The burgeoning economic landscape in India is significantly influencing the demand for gold jewellery in the country. With India's economy recovering from a pandemic-induced contraction and external challenges, such as the Russian-Ukraine conflict and inflation, the gold jewellery market is optimistic.

One of the key drivers for increased demand is the robust GDP growth forecast for FY24, ranging from 6% to 6.8%. This economic growth is expected to boost consumer confidence and their capacity to invest in gold jewellery. Moreover, the remarkable surge in private consumption in H1, reaching levels not seen since FY15, has led to increased production activity across sectors. This heightened private consumption bodes well for the gold jewellery market, as consumers seek to adorn themselves with jewellery as a reflection of their improved financial standing.

Stable inflation rates within the target range set by the Reserve Bank of India improved consumer confidence. As the economic landscape favourably expands while middle class expands and their financial capacity grows, inclination towards gold jewellery intensifies, making it a compelling driver of demand within this demographic.

Rising Disposable Income:

The growth in disposable income isn't restricted solely to the middle class; it spans various income groups. According to data from the Ministry of Statistics & Programme Implementation, Gross National Disposable Income (GNDI) at current prices was approximately ₹191.78 lakh crore in 2018-19. However, for the fiscal year 2021-22, it is estimated to have significantly increased to approximately ₹236.07 lakh crore.

This financial flexibility empowers a broader spectrum of consumers to make discretionary purchases. Gems and jewellery, with their blend of aesthetics and investment value, feature prominently in the list of desired acquisitions. The ability to afford jewellery, from simple ornaments to extravagant pieces, becomes a reality for a growing number of Indian consumers.

Seasonal Demands:

Seasonal demand in India is greatly influenced by the celebration of festivals and weddings. These cultural and social events hold immense significance in the lives of Indians and play a pivotal role in driving demand for various products, including gold jewellery.

Festivals like Diwali, Dhanteras, and Akshay Tritiya serve as significant catalysts for heightened demand for gold jewellery. Diwali, often referred to as the Festival of Lights, typically falls between October and November. During this time, the entire nation comes together to celebrate wealth, prosperity, and the bonds of family. Gold jewellery, symbolizing this affluence, witnesses a surge in demand as it becomes a popular choice for gifting and personal adornment during the festive season.

Dhanteras, preceding Diwali, is a day dedicated to the purchase of new utensils and gold. This auspicious occasion further fuels the demand for gold jewellery. Similarly, Akshay Tritiya, usually falling in April or May, is associated with new beginnings and boundless fortune, making it an ideal time for investments in gold jewellery.

Weddings, deeply ingrained in Indian culture, stand out as a major driving force for gold jewellery demand. These grand celebrations involve significant investments in wedding jewellery, often comprising intricate gold pieces. Additionally, the rural demand for gold jewellery sees an upswing after the harvest season, particularly in November and December. Following a successful harvest, rural households set aside a portion of their earnings to invest in gold as a way to celebrate their prosperity.

The demand for gold jewellery in India experiences notable seasonal peaks during festivals and weddings. These occasions represent moments of celebration, prosperity, and tradition, making gold jewellery an integral part of the festivities and a cherished possession for families across the country.

Hallmarking Developed Trust in Quality:

The introduction of hallmarking has been transformative in the gems and jewellery industry. It serves as a robust quality assurance mechanism, certifying the purity and authenticity of jewellery. For consumers, this is a symbol of reliability. It's an assurance that the product they purchase is of a certain standard and value. Hallmarking has played a pivotal role in bolstering consumer confidence, enhancing trust in the quality of gems and jewellery.

Customary Gifting:

The act of gifting jewellery is deeply embedded in the Indian cultural psyche. It's not just about presenting a material possession; it's a symbol of affection, celebration, and significant life events. Whether it's gifting gold during a child's birth, an engagement, marriage or an anniversary, the sentiment behind these gestures is profound. This tradition reinforces the demand for gems and jewellery products, as they hold sentimental value and cultural significance.

Major trends

In 2023, the jewellery sector in India is witnessing a fascinating array of emerging trends that are shaping the choices of consumers, from metals and materials to design and gemstone preferences.

In the realm of metals, 18-karat gold continues to be a preferred choice for many. However, with the rising gold prices, 14-karat gold has found acceptance, especially when coupled with attractive designs. Multi-coloured gold combinations, such as yellow, white, and rose gold, have been popular. Additionally, a growing number of consumers are leaning toward a blend of gold and silver due to the increased cost of gold and the versatility of silver. Surprisingly, when it comes to gem choices, design takes precedence, with 60% of consumers emphasizing unique design over specific gemstones. Notably, Platinum and Titanium jewellery are not gaining significant traction in the Indian market. Non-precious materials like wood, feathers, beads, and leather, despite their popularity elsewhere, are struggling to find acceptance in fine jewellery in India.

The trend of daily jewellery wear is on the rise, with stackable bracelets, rings, and layered necklaces being the go-to choices for pret wear. Ear stacks, a previously famous trend in India, have made a global comeback. In the bridal jewellery category, brides are gravitating toward multiple layered necklaces that serve multi-utility purposes. Women are also opting for smaller, lightweight pieces that can be worn on various occasions, replacing the chunky earrings of the past. The influence of famous fashion designers like Sabyasachi and Manish

Malhotra, along with aspirational shopping, has elevated the bridal style quotient. Factors such as jewellery brand campaigns, influencer collaborations, celebrity endorsements, and international red-carpet events further contribute to the surge in occasion wear jewellery.

Ring and bracelet stacks are currently the best-sellers, reflecting the trend of layering and stacking in jewellery. Earrings exhibit remarkable diversity, ranging from small ear studs and drop earrings for everyday wear to jhumkis and hoops for dressier occasions. Single earrings, asymmetric designs, and stacks of earrings are all the rage. Simplicity is key, as complicated mechanisms in modular jewellery are less appreciated. Unsurprisingly, diamond jewellery and bridal jadau jewellery remain in high demand. Notably, two emerging categories are pret wear in the jadau segment and contemporary gold jewellery.

Design & Techniques

Beyond traditional floral and classic jewellery, meaningful jewellery imbued with religious symbols, lucky numbers, and prayers has gained prominence post-pandemic. Unique finishing techniques such as the combination of matte and high-polish gold, antique gold finishes, and the use of enamelling or ceramic techniques have introduced a diverse range of colours, from pastels to vivid shades. Lightweight jewellery with spread-out designs is viewed as a value-for-money option in the wake of soaring gold prices.

Personalization and the pursuit of unique jewellery pieces have been a prevailing trend since 2022, and it's poised to gain even more momentum in 2023. Off-the-shelf, mass-produced jewellery no longer satisfies discerning patrons who yearn for pieces that tell their unique stories. There is a growing demand for customized, made-to-order pieces, often adorned with names, logos, or the creative repurposing of heirloom jewels. This bespoke approach allows customers to own jewellery that speaks to their individuality.

What's intriguing is the shift in perception towards these personalized pieces. Clients no longer wish to flaunt their acquisitions on Instagram or other public platforms. They seek to maintain the exclusivity and rarity of their handcrafted treasures, savouring the fact that their jewellery remains a well-kept secret among the privileged few.

Diamonds & Gemstones

In the realm of diamonds and gemstones, solitaires and diamonds in cluster settings continue to dominate the engagement ring category. While rubies and emeralds remain popular choices, there's a surprising trend in single polki-jadau engagement rings. Additionally, Lab Grown Diamonds are generating curiosity, with about 60% of consumers having heard of them. However, actual buyers account for only around 10%.

The allure of Rudraksh jewellery has already made significant waves. These sacred beads, often associated with spirituality and meditation, have found their place in contemporary jewellery. But it doesn't stop there. The jewellery industry is witnessing a surge in requests for pieces crafted with specific stones, each chosen for its unique spiritual significance. These preferences have evolved, with tanzanite, rubellite, tourmalines, amethysts, garnets, and pastel gemstones like aquamarines, rock crystal, rose quartz, kunzite, and morganites gaining acceptance. These gemstones are not merely accessories but are imbued with deep, personal meaning, making them an essential part of the wearer's spiritual journey and self-expression.

Red, blue, green, and pink gemstones remain strong favourites, but all-white and all-gold jewellery are also receiving considerable attention, along with multi-coloured options.

The jewellery sector in India in 2023 is marked by a dynamic landscape where consumers are open to a wide range of materials, designs, and gemstone choices. From everyday wear to bridal jewellery, the industry is driven by a fusion of tradition and innovation, with a focus on uniqueness and aspirational shopping. These emerging trends showcase the vibrancy and diversity of the Indian jewellery market, offering something for everyone, whether they prefer classic or contemporary styles.

Key Challenges

- ***Price Volatility:***
  The gems and jewellery industry in India is acutely sensitive to the volatile prices of precious metals and gemstones, particularly gold. Fluctuations in the global economy, geopolitical tensions, and shifts in currency values can lead to significant price swings. These fluctuations not only affect the cost of raw materials but also disrupt consumer buying patterns. Staying nimble and responsive to such price volatility is essential for industry players.
- ***Supply Chain Disruptions:***
  The intricate and multifaceted supply chain in the gems and jewellery sector extends from mining to manufacturing and, finally, retail. This complexity makes the industry susceptible to various disruptions. The COVID-19 pandemic served as a stark reminder of this vulnerability. The sudden onset of lockdowns and restrictions brought manufacturing operations and retail outlets to a grinding halt. This caused production delays and disrupted customer access. The experience emphasized the urgent need for a more resilient and agile supply chain structure capable of withstanding unforeseen shocks.
- ***Changing Consumer Preferences:***
  The dynamic nature of consumer preferences is a perpetual challenge for the industry. As consumers become increasingly exposed to international design trends and modern aesthetics, their expectations continue to evolve. The industry's ability to remain adaptable and responsive to these evolving tastes is paramount. This entails offering contemporary and innovative designs while preserving a connection with traditional values. Striking this balance is the key to remaining relevant and attractive to a diverse customer base.
- ***Competition:***
  The gems and jewellery industry have a fiercely competitive landscape, with a multitude of domestic and international players competing for market share. The emergence of new brands, especially those leveraging innovative online retail models, adds a new layer of competition. Established businesses must continually innovate and find ways to differentiate themselves. Building strong brand recognition

becomes a critical strategy to maintain a competitive edge and capture the ever-discerning consumer's attention.

- ***Labor Issues:***

  The workforce in the gems and jewellery sector primarily consists of skilled and semi-skilled artisans. Maintaining a consistent supply of these skilled laborers presents an ongoing challenge. The dynamic nature of demand for these skills makes it difficult to ensure a steady workforce. Labor concerns encompass not only wages but also working conditions. Furthermore, the industry must invest in upskilling initiatives to meet the evolving requirements and standards of the sector.

Regulatory Framework

FDI Regulations

The government has allowed a 100% foreign direct investment in the sector through the automatic route, where neither the foreign investor nor the Indian company needs prior approval from the Reserve Bank or the Government of India. In the fiscal year 2021-22, the gems and Jewellery sector received a total FDI of USD 58.77 billion.

The impact of this FDI policy in the Jewellery sector is substantial, reflecting the sector's integral role in India's economy. Contributing to 7% of the GDP and accounting for 10-12% of the nation's total merchandise exports, this sector is a major economic powerhouse. Notably, it serves as the second-largest contributor to Foreign Exchange Earnings (FEE) in the Indian economy.

Hallmarking scheme

The Bureau of Indian Standards (BIS) introduced Hallmarking scheme for regulation and authentication of Jewellery in India. Beginning in the year 2000, this scheme was introduced to ensure the quality and purity of gold Jewellery, providing consumers with confidence in their purchases.

The first phase, initiated on June 23, 2021, saw the successful implementation of Mandatory Hallmarking in 256 districts across the country. Building on this success, the second phase expanded the coverage to an additional 32 districts, commencing on April 4, 2022.

A pivotal shift occurred on July 1, 2021, with the introduction of the 6-digit Hallmark Unique Identification (HUID) number, which now forms an integral part of the hallmark. This alphanumeric code, traceable to each article, enhances transparency and authenticity.

The third phase of the mandatory hallmarking vide Hallmarking of Gold Jewellery and Gold Artefacts (Third Amendment) Order, 2023, came into effect from September 8, 2023, is a testament to the scheme's continued growth and importance. It will further extend the reach of mandatory hallmarking to encompass an additional 55 new districts, resulting in a total of 343 districts covered under this crucial regulatory framework.

Under the Hallmarking scheme, registered jewellers are entrusted with the task of selling hallmarked Jewellery, working in tandem with recognized testing and hallmarking centres. These regulations, in place since June 14, 2018, are designed to empower consumers, enabling them to make well-informed choices when purchasing gold and sparing them from unnecessary confusion. This scheme plays a vital role in safeguarding the interest of Jewellery buyers while upholding the integrity of the industry.

Gold Monetisation Scheme

The Gold Monetisation Scheme, introduced in November 2015, provided individuals, trusts, and mutual funds with the opportunity to deposit their gold holdings with banks, enabling them to earn interest on their deposits.

Notably, the Gold Monetisation Scheme was designed to replace the existing Gold Deposit Scheme (GDS) of 1999. Under this scheme, depositors had the chance to earn interest at an annual rate of 2.25% for short-term deposits spanning one to three years. For medium and long-term deposits, a more attractive interest rate of 2.5% was offered.

The scheme pursued several key objectives, including mobilizing the vast quantities of gold held by households across the country, thus reducing the need for importing gold to meet domestic demands. It aimed to support and enhance the gold and jewellery sectors by providing avenues for gold loans from banks. Additionally, the Gold Monetisation Scheme provided depositors with certificates specifying the amount and purity of the gold they had deposited.

As of January 2019, the Reserve Bank of India (RBI) expanded the scope of the Gold Monetisation Scheme, allowing charitable institutions and government entities to participate, thereby enhancing the potential for gold deposits in the coming months.

In a revamped version of the Gold Monetisation Scheme, efforts were made to unlock an estimated 22,000 tonnes of idle gold stored in Indian households. This was achieved by reducing the minimum deposit requirement to just 10 grams, involving jewellers in the process, and ensuring the participation of all state-run banks. The goal of this revamp was to simplify the process of opening a hassle-free gold deposit account, making it more accessible to the people. This endeavour represented a significant step toward harnessing the latent potential of idle gold resources in the country.

Sovereign Gold Bond Scheme 2023-24

In a recent development, the Government of India, in collaboration with the Reserve Bank of India, has made the decision to issue Sovereign Gold Bonds (SGBs) in multiple tranches for the fiscal year 2023-24. The SGB scheme represents a government-backed investment initiative that allows investors to own gold in a non-physical form.

The inception of the first SGB scheme occurred in November 2015 under the Gold Monetisation Scheme. Its primary objective was to reduce the demand for physical gold and channel a portion of domestic savings that would typically be invested in gold into financial savings.

This scheme will likely create a shift in the investment landscape, encouraging individuals and institutions to move away from physical gold assets like bars, coins, and jewellery and transition into these bonds, promoting both financial savings and a more secure form of gold ownership.

Prevention of Money Laundering Act (PMLA):

The PMLA of 2002 was established to combat the criminal act of legitimizing proceeds from illegal sources. This legislation empowers the government or relevant authorities to seize assets acquired through unlawfully obtained funds.

Under this, the central government has instituted a requirement for gold traders to maintain transaction records exceeding Rs 10 lakhs for a duration of 5 years.

Duty Drawback Scheme

The Duty Drawback Scheme is a program designed to facilitate the acquisition of gold or inputs by exporters without incurring duty charges. To participate in this scheme, exporters must first obtain a one-time certificate from the relevant customs authorities, in addition to possessing the requisite membership certificates from organizations such as the Gem and Jewellery Export Promotion Council (GJEPC).

With these documents in hand, exporters are then eligible to approach a nominated agency authorized to dispense duty-free gold. Subsequently, they have a 90-day window to conduct the exportation of gold and an additional 120-day period to receive the corresponding payments. Essential proof of these export activities includes the submission of the Customs Invoice Bill, Shipping Bill, and Bank Realization Certificate (BRC).

Within the framework of the Duty Drawback Scheme, exporters can claim a refund if they have gold stocks earmarked for exports. This refund, known as duty drawback, is typically evidenced through a designated shipping bill.

Exporters can avail of the Duty Drawback Scheme through two primary mechanisms:

1. **Outright Purchase:** Under this option, exporters can procure gold or silver for Jewellery exports against a 100% payment.
2. **Metal Loan**: This alternative allows exporters to access duty-free gold for Jewellery exports under a loan arrangement, secured by a Bank Guarantee or Cash Margin amounting to 110% of the notional value of the gold.

Regulatory framework surrounding imports.

The regulatory framework for the import of gold into India exhibits several common elements that align with the overarching framework governing the importation of goods. These shared aspects create a foundation for the process, ensuring that gold imports adhere to legal and operational standards.

First and foremost, gold imports, much like other commodities, fall under the purview of the Customs Act, 1962. This comprehensive legislation oversees the import and export of goods and encompasses crucial procedures, such as the assessment of import duties and the customs clearance process. Additionally, customs valuation rules are crucial in determining the value of imported gold. These rules play a pivotal role in calculating the applicable import duties, contributing to the financial aspects of the importation process.

In the realm of taxation, the Goods and Services Tax (GST) is levied on gold imports in India. The GST rates on import of Gold is 10.75% (including customs duty of 7.5% and 3% GST).

Other linked GST rates on Gold are:

Particulars	HSN Code	GST Rate
(1) Precious stones (other than diamonds) and semi-precious stones, whether or not worked or graded but not strung, mounted or set (2) Ungraded precious stones (other than diamonds) and semi-precious stones, temporarily strung for convenience of transport	7102, 7103, 7104	0.25%
Diamond, gold, pearls, silver, or articles of jewellery of silver or gold, and so on, including synthetic or reconstructed stones, unworked or simply sawn or roughly shaped	7101, 7105, 7106, 7107, 7108, 7109, 7111, 7113, 7114, 7116, 7118	3%
Job work in relation to cut and polished diamonds, plain or studded jewellery of gold, silver and so on	9988	1.5%

Recent Developments

In a recent development, the government has put in place restrictions on the import of specific gold jewellery and articles, with the goal of curbing the inflow of non-essential items. According to the new regulations, importers will now need government permission or a license to bring certain gold items into the country.

The Directorate General of Foreign Trade (DGFT), which operates under the Department of Commerce within the Ministry of Commerce & Industry, has introduced changes to the import policy and conditions for particular categories of gold in India. A notification dated July 12, 2023, published in the Gazette of India Extraordinary Part – II, Section-3, Sub-Section (ii), marks a shift from categorizing these items as "Free" to classifying them as "Restricted" when it comes to their import status, primarily related to specific HS codes associated with gold.

One of the revised regulations pertains to HS code 71131911, which is linked to unstudded gold, and it will now face import restrictions. However, there's an essential exception in place for importers operating under a valid India-UAE Comprehensive Economic Partnership Agreement (CEPA) Tariff Rate Quota (TRQ). Importers falling under this category will continue to be allowed to import unstudded gold without the need for an import license.

The other affected HS codes are 71131919 and 71141910, encompassing various forms of gold and gold articles, respectively. These categories will also shift from a "Free" import policy to a "Restricted" one.

This change in import policy, from "Free" to "Restricted," is effective immediately. The decision was prompted by importers exploiting a policy loophole in recent months, enabling them to source plain gold jewellery from Indonesia without incurring any import taxes.

Other Government Initiatives:

- In the 2023-24 Budget, the Indian government eliminated Customs duties on the import of seeds employed in the production of uncut lab-created diamonds. This measure is intended to enhance the production and overseas sales of lab-grown diamonds. This move aligns with the global trend of growing interest in lab-grown diamonds, both for their ethical and environmental benefits and for their ability to meet the increasing demand for these precious gemstones.
- Customs duty on articles of precious metals such as gold/silver/platinum has increased from 20% to 25% from February 2023 in the Gems and Jewellery industry. For precious metals segment, import duty on Silver and Silver dore has increased from 7.5% and 6.1% to 10%, for both the categories.
- In accordance with a DGFT notification dated December 26, 2002, the export or import of uncut diamonds will not be authorized unless the shipment includes a Kimberley Process certificate, as mandated by the procedure outlined by the Gem and Jewellery Export Promotion Council. This is done to increase transparency and oversight in the diamond supply chain in order to eliminate trade in conflict diamonds sold by rebel groups to fund conflict against legitimate governments.

Foreign Trade

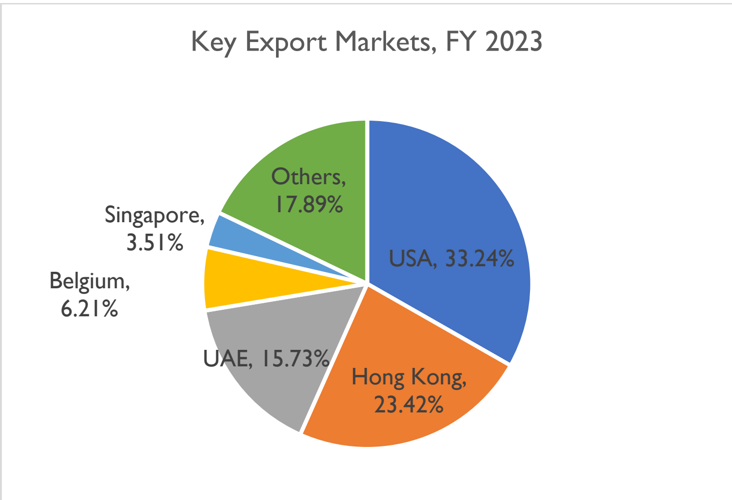
Export Pattern

The exports of Gems and Jewellery from India stood USD 37.5 billion in FY 2022. This comes after a decline of 10% and 28% in FY 2020 and FY 2021 respectively. This fall can be attributed to slow demand, supply-chain disruptions and high shipping costs associated with exports. Following the downfall brought on by the pandemic, the industry bounced back with a 55% increase in exports in FY 2022.

Source: Gems and Jewellery Export Promotion Council

During FY 2019 – FY 2023, gold jewellery on average occupied approximately 27% of the total gems and jewellery exports. It followed a similar downward trend that of total exports between FY 2019- 2021, falling 3% and 58% in FY 2020 and FY 2021, respectively. However, unlike the 5% decline observed in exports of total gems and jewellery in FY 2023, gold jewellery remained resilient, exhibiting a 3% y-o-y increase.

United States was the leading export market for total gems and jewellery, accounting for 1/3rd share in the total market. Following USA were Hong Kong (25.02%), UAE (15.97%), Belgium (6.21%), and Singapore (3.1%).

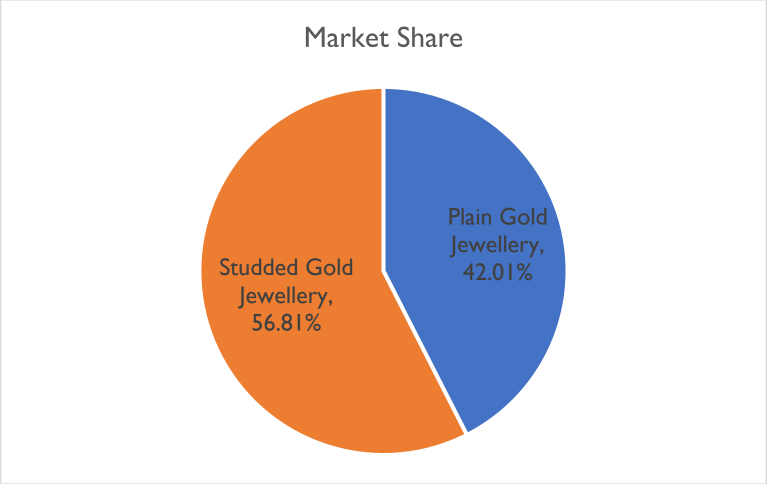


Source: Gems and Jewellery Export Promotion Council, Dun & Bradstreet Research

While markets like USA and Hong Kong exhibited negative annual growth rates of 14.77% and 6.37% respectively in FY 2023, Singapore and Belgium showed increases of 63.56% and 25.64% respectively. Other strong emerging markets were Switzerland with 69.92% annual growth and Netherland with 176.68% annual growth.

Exports of Gold Jewellery Items[5]

Within the overall exports of gold jewellery, plain gold jewellery and studded gold jewellery are two major categories. Plain gold jewellery comprises of Gold Jewellery unstudded (Plain), Parts (Gold Jewellery), Gold Jewellery Clad with Precious Metal and Others, while studded gold jewellery comprises of Gold Jewellery Set with Pearls, Gold Jewellery Set with Diamonds and Gold Jewellery Set with Other Precious & Semi-Precious Stones.



Source: Ministry of Commerce and Industry

In FY 2023, plain jewellery exports reached USD 3,959 million, accounting for 42% share in gold jewellery exports. Studded gold jewellery, on the other hand, accounted for 57% of the total gold jewellery exports, reaching export value of USD 5,353 million.

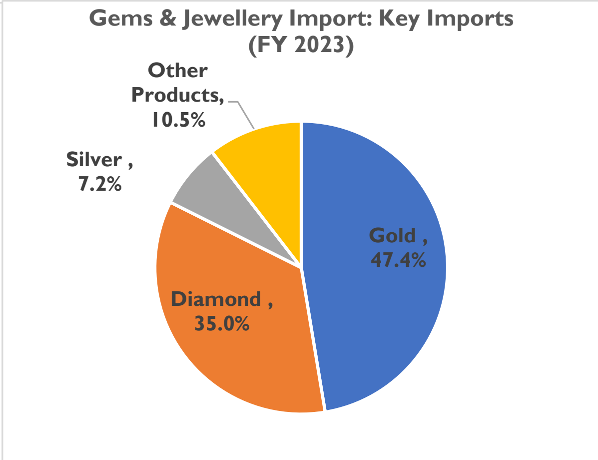
The remaining 1% share is taken up by other gold products such as medallions, coins, and other articles of gold smith.

Import Pattern

Gems & Jewellery imports declined from a peak of USD 91 Bn in FY 2012 to USD 54.45 Bn in FY 2020. This decline was prompted by lower import of gold as government hiked the import duty on gold in order to control the widening Current Account Deficit (CAD). Demonetization announced in November 2016, also impacted consumption demand for jewellery, and consequently imports of the yellow metal. India Gold imports declined from 62% of total gems & jewellery imports in FY 2012, to 45% in FY 2018 while it saw a steady rise to 51% in FY 2019, 52% in FY 2020 and 63% in FY 2021 and moderated further in the subsequent years to 57% and 47%.

[5] HS Codes- Studded: 71131920, 71131930, 71131940; Plain: 71131910, 71131960, 71131990, 71132000

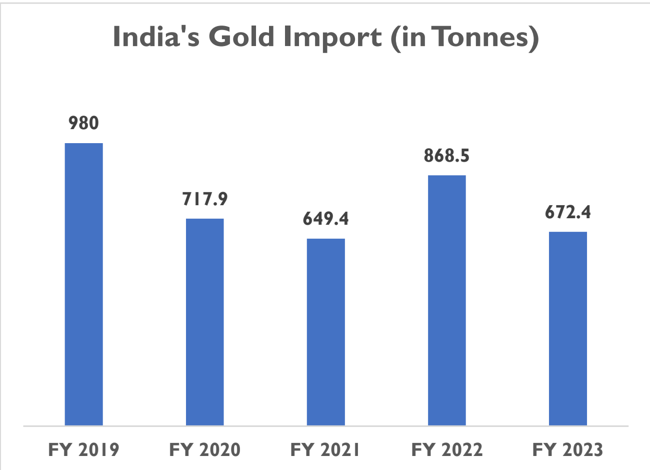
In value term, FY 2023 witnessed 9.5% annual decline in overall gems & jewellery imports to USD 73.9 mainly because of 24% decrease in gold and 6% decline in diamond while silver segment reported 61.6% growth. During FY 2019-23, gems & jewellery imports have grown at 3% CAGR while gold, diamond and silver imports have grown at 2%, 0.4% and 9% CAGR respectively.

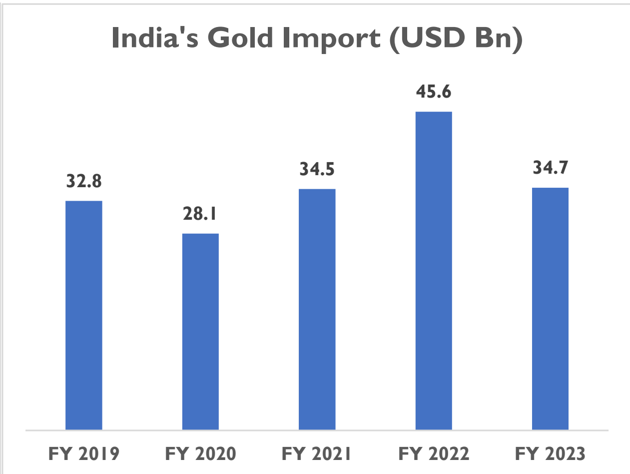


Source: Ministry of Commerce and Industry

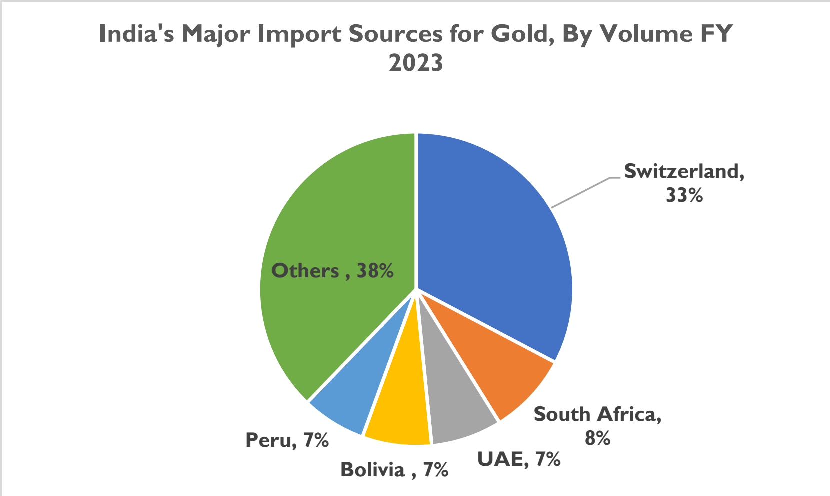
Gold Import

India is the largest importer of gold which imports between 600-900 tonnes of gold annually to fulfill the demand for Jewellery industry. Between FY 2019-23, India's average gold import stood at 778 tonnes. Impacted by Covid-19 induced demand moderation, India's gold import fell sharply from 980 tonnes in FY 2019 to 717.9 tonnes in FY 2020 and 649.4 tonnes in FY 2021 while gold import recovered sharply in FY 2022 and registered 34% y-o-y growth against 10% yearly decline in the previous year. In FY 2023, India's Gold import dipped on account of high import duty and global economic uncertainties. India's gold import observed 23% decline in volume terms to 672.4 tons and a 24% decline in value terms to USD 34.7 Bn in FY 2023, on y-o-y basis.





Source: Ministry of Commerce and Industry



Source: Ministry of Commerce and Industry

With 33% share in India gold import, Switzerland continued to remain India's largest import source in FY 2023, followed by South Africa, UAE, Bolivia, and Peru. Together, top 5 nations account for 62% share in India's gold import volume in FY 2023.

Gems & Jewellery Retailing Scenario in India

India's retail jewellery sector has undergone a remarkable transformation over the past decade, reshaping the traditional landscape of family-owned single stores into a competitive arena where chain stores operated by corporates have gained prominence. This shift reflects a dynamic industry marked by evolving consumer preferences, changes in market dynamics, and the impact of regulatory reforms.

One of the most noteworthy developments in the Indian jewellery market has been the ascent of chain stores. Traditionally, the sector was dominated by family-owned and standalone stores, but this dynamic is changing rapidly. In the past decade, chain stores have proliferated, becoming significant players in the industry.

Chain stores wield their influence through economies of scale, which provide them with a competitive edge over smaller retailers. With access to substantial bank finance, these stores can maintain larger inventories and offer more competitive retail margins. Their size enables them to serve a diverse consumer base across India, and their national and regional presence ensures they cater to different tastes and preferences. This is especially evident in the daily wear segment, where chains excel with fast-moving items like chains and rings, which constitute a substantial 50-60% of their business.

In contrast, standalone retailers, while challenged by inventory management, funding, and product differentiation, have carved out their niche in the market. Focusing on specialization and customization has become their unique selling proposition. For instance, in the bridal jewellery segment, standalone retailers leverage their flexibility, understanding of local customers, and design sensibilities to offer customized pieces that align with customer budgets. They also provide flexible payment options, a strategy that has positively impacted their margins. Additionally, they have extended this customization approach to the daily wear segment, allowing them to compete effectively without maintaining high stock levels.

The market share of chain stores continues to rise, reaching 35% by 2021, a remarkable increase of 5% since 2016. The rapid expansion of chain stores has spurred innovation, as they focus on offering products that provide both value and diversity to India's culturally and demographically diverse customer base. These large retailers continue to expand and are increasingly targeting Tier 3 and Tier 4 cities, capitalizing on aspirational demand, and further accelerating their market share growth.

The dynamics of the jewellery retail industry have also been influenced by regulatory changes. Demonetization and the introduction of the Goods and Services Tax have compelled many jewellers to adopt proper accounting practices. Retailers are now more organized and transparent, which resonates with the changing preferences of consumers who seek transparent pricing, better shopping experiences, and online transactions. The distinction between organized and unorganized jewellers often hinges on factors such as invoicing, banking channels, adherence to Bureau of Indian Standards (BIS) regulations, and enterprise resource planning (ERP) systems.

Changing consumer preferences have further catalysed the industry's transformation. Modern consumers demand a superior shopping experience, transparent pricing, flexible return policies, and purchases backed by bills and online transactions. These factors have led to the increasing popularity of chain stores. Even regional players have expanded to become national chains, reflecting the growing preference for larger, more organized retailers.

Going ahead, the industry's future appears to be a balanced co-existence of large chain stores and adaptable standalone retailers. Chain stores may eventually reach a saturation point in larger cities, where standalone retailers are catching up in terms of offering consumer-centric designs and experiences. Chain stores will likely shift their focus to Tier 2 and Tier 3 cities, anticipating untapped aspirational demand.

Emergence of e-commerce channels & its impact on gold retailing in India

The COVID-19 pandemic has been an undeniable catalyst for change, making the Jewellery industry re-evaluate its business model. Amid lockdowns and restrictions, retailers realized the importance of embracing the omnichannel approach. This strategy involves seamless integration of online and offline channels to enhance the Jewellery purchase experience for consumers. Traditionally, buying Jewellery has been a planned, family-oriented decision involving years of savings, making it imperative for the online route to provide a satisfying experience.

Jewellery retailers are now using digital tools to complement their in-store offerings, creating a consistent, brand-reinforced experience. Customers can start their journey online, explore a wide range of creations, and then complete their purchase offline, all at their convenience. This approach also facilitates consumer education, engagement, and interaction, further enhancing the overall experience.

The pandemic-induced restrictions pushed Jewellery brands, both big and small, to strengthen their online presence. What was once an underrated avenue for Jewellery sales has now become a significant revenue stream. With e-commerce showing double-digit growth over the past few years, online Jewellery sales are on the rise.

One reason for the slow uptake of online Jewellery sales was the high value associated with these items. However, Jewellery brands have increasingly broken away from convention, adopting creative strategies such as augmented reality, digital conversations, virtual reality, and video calls with store staff to offer consumers a beautiful experience. These digital tools bridge the gap between consumers and Jewellery retailers, creating a virtual space where customers can explore, interact, and make informed decisions.

Jewellery purchasing behaviour is evolving, with consumers moving beyond considerations of weight and material value. Instead, the focus is on individuality and style, especially among cosmopolitan consumers aged 25 to 45. This demographic seeks Jewellery that not only serves as an investment but also complements modern wearability. The demand for lightweight, daily wear and fashion Jewellery in 18-carat gold has surged.

One of the key trends in the Jewellery retail space is the growing emphasis on selling directly to consumers. Jewellery brands are leveraging the strength of e-commerce to connect with customers directly from their digital sites, including social media platforms and official websites. This approach, along with selling over social media, has seen exponential growth. Instead of opening more physical stores, retailers are exploring additional channels to connect directly with their customers.

The rise of Jewellery brands, especially those adopting digital-first, omnichannel strategies, has bridged the gap between offline and online experiences. This approach has not only made the entire Jewellery shopping experience more accessible but also more enjoyable for consumers. With easy access to trends, comparisons, and information at their fingertips, customers can make informed decisions with confidence.

The transformation of India's jewellery retail landscape is a reflection of a rapidly evolving industry, adapting to changing consumer preferences, regulatory reforms, and market dynamics. As Jewellery retailers continue to adapt and innovate, they are likely to discover a multitude of opportunities to expand their customer base and enhance the overall Jewellery shopping experience. The road ahead for the Jewellery retail sector in India is paved with potential, offering a dynamic blend of tradition, modernity, and style that ensures a glittering future for this cherished industry.

Competitive Landscape

The competitive landscape in India's gems and jewellery retailing sector is characterized by its diversity and complexity. The presence of a wide range of market players, from traditional family-owned jewellers to contemporary corporate chain stores, highlight the competitive nature of competition in this sector.

This sector is defined by fragmentation, with a multitude of players actively competing for market share. An estimated 5,00,000 to 6,00,000 players populate this dynamic landscape, resulting in fierce competition. Moreover, a substantial portion of the industry remains unorganized, particularly in rural and semi-urban areas. In this regard, an approximate 35% of the companies are branded national chains, while others are smaller, regional players or independent retailers. These unorganized players often lack the modern infrastructure and transparency found in organized retail. However, this trend is gradually changing as companies are adapting with the latest consumer preferences, led by consumers increasingly gravitate towards branded and organized products.

Companies often differentiate themselves on the basis of their unique design, segments, and style they offer. While companies like PCJ and Kalyan Jewellers are national chains, mainly catering to bridal segment, Caratlane and Tanishq cater to daily wear segment, especially working women. Other smaller independent retailers cater to their trusted consumers segment by focusing on specialisation and customisation. Using their understanding of local customers, they are able to offer pieces that align with customer budgets. Other factors that the companies compete upon includes offering customization, maintaining transparency, providing buyback guarantees, and delivering excellent customer experiences. These approaches allow brands to stand out and meet the diverse preferences and trust expectations of consumers.

Key factors shaping the competitive landscape of gems and jewellery retailing in India are:

Regulatory Changes

Regulatory shifts have played a significant role in shaping competition. The implementation of the Goods and Services Tax and the push for transparency have led to a more organized and transparent industry. Many jewellers in large cities and towns now fall into the organized category. Regulatory compliance has created a level playing field for competition.

Consumer Preferences

Changing consumer preferences are steering the industry toward innovation. Modern consumers seek a better shopping experience, transparent pricing, and buyback policies. This has accelerated the growth of chain stores that excel in these areas and cater to these evolving preferences.

Digital Transformation

The digital age has given rise to online retailing, allowing consumers to explore a vast array of designs and make informed decisions. Online retailers offer convenience and customization, creating a unique competitive space in the market.

Jewellery Trends

Jewellery trends, such as the emphasis on lightweight, fashionable jewellery, have influenced the competitive landscape. Indian retailers are aligning their product offerings with these trends to stay competitive on the international stage.

Major Retail Brands

Some of the major retail brands in the country comprise -

Company	Major Brands
Joyalukkas India Limited	Pride- Diamond Bridal Collection
	Eleganza- Polki Diamond Collection
	Apurva- Antique Collection
	Ratana- Precious Stone Jewellery
	Veda- Traditional Jewellery Collection
	Zenina- 22 Karat Turkish Colllection
	Masaaki- Pearls
	Li'L Joy- Kids Jewellery
Kalyan Jewellers India Limited	Mudhra- Handcrafted Antique Jewellery
	Laya- Diamond Jewellery
	Nimah- Timeless Heritage Jewellery
	Glo- Diamond Jewellery
	Anokhi- Uncut Diamond
	Vedha- Antique Uncut Diamond Jewellery
	Rang- Precious Stones
	Apporva- Diamond Jewellery
	Tejasvi- Polki Diamonds
	Hera- Everyday Diamnd Jewellery
	Zia- Diamond Jewellery
	Candere- Kalyan Jewellers Company
Titan Company Limited	Tanishq
	Zoya
	Mia
	Caratlane
P.N Gadgil & Sons	Zaroka
	Azva
	Gargi

Other key players in the industry include -

Company	Business Description
Renaissance Global Limited	The company designs, manufactures, and supplies branded jewellery across North America, Australia and Asia. It operates across three business verticals – branded jewellery, customer brands & plain gold jewellery with a strong focus on branded jewellery. The branded jewellery vertical houses a portfolio of licensed and in-house brands distributed through B2B and D2C channels. The B2B channel services large specialty jewellers, department stores, online and TV retailers selling both customer brands (white label) and licensed brands. The D2C channel houses 6 websites selling branded jewellery in Canada, US and UK. The company holds licensing agreements with global brands such as Disney and Hallmark. Under its owned segment, it has a portfolio of brands such as Irasva, Jewelili and Made For You.
Thangamayil Jewellery Limited	The company operates in the jewellery industry, employing a Business-to-Consumer (B2C) retail model with a chain of retail jewellery stores across several districts in Tamil Nadu. The company's core business involves sourcing jewellery from reputable suppliers and jewellers and selling directly to end consumers. In addition to being a retailer, the company also undertakes jewellery manufacturing and design services on a need basis. The company has a total operating area of approx. 78,000 square feet, across all its 41 Thangamayil showrooms & 13 Thangamayil Plus Exclusive Silver showrooms. Some of its popular brands include Subhiksham (wedding jewellery), Sayonee (Arabian Jewellery collection), Lite Magic (dazzling jewellery), Trendy (Next-gen jewellery), Punngai and Zilara among others.
Goldiam International Limited	The company is primarily involved in manufacturing of Gold/silver/platinum and Diamond studded Jewellery and exports its products to the US, Europe etc. It employs omnichannel strategy, which includes e-commerce drop shipments and B2B website (Jewel Fleet) to provide value-added, omni-channel sales funnel to its customers. The company is a supplier to leading global retailers, departmental stores and wholesalers with a diversified product portfolio of natural diamond jewellery, lab grown diamonds and

	jewellery value added diamond jewellery business. Its product portfolio comprises necklaces, earrings, engagement rings, wedding bands, anniversary rings, bridal sets etc.
D.P. Abhushan Limited	The company is engaged in the business of manufacturing, sale and trading of Gold Jewellery, Diamond Jewellery, Platinum Jewellery, Silver Jewellery and other precious Metals. 'D.P. Jewellers' is the flagship brand with a primary focus on Madhya Pradesh, Rajasthan, and Gujarat. The company's showrooms are located in Ratlam, Indore, Udaipur, Bhopal, Ujjain, Bhilwara, Kota and Banswara.

Financial Performance

Company	Total Income (INR Million)		Total Expenses (INR Million)		Profit after Tax (PAT) (INR Million)	
	FY22	FY23	FY22	FY23	FY22	FY23
Renaissance Global Limited	15,416	13,573	14,601	12,978	389	200
Thangamayil Jewellery Limited	31,559	21,947	21,427	30,479	385	797
Goldiam International Limited	4,196	3,310	3,486	2,612	574	568
D.P. Abhushan Limited	17,317	19,753	16,770	19,147	404	453

Note: Based on standalone financials of the company

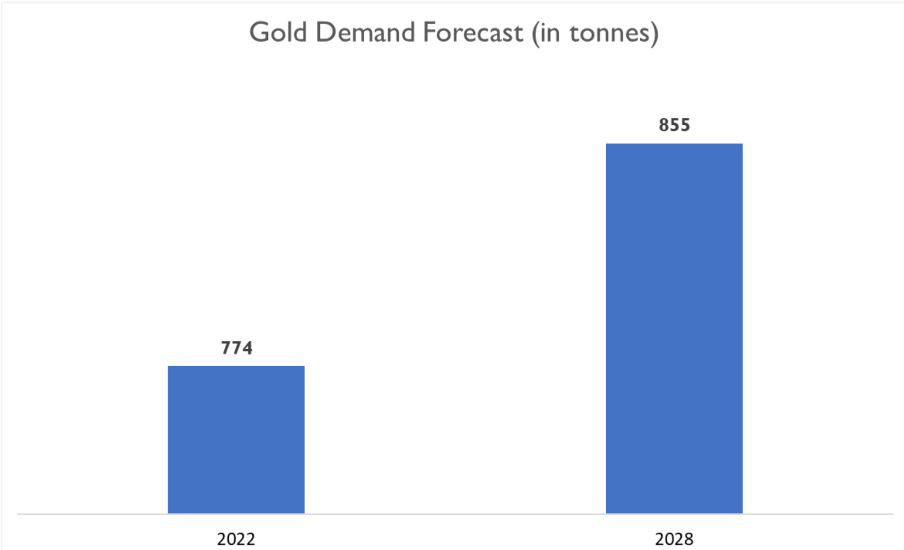
Growth Forecast

In 2022, India held a dominant position as the largest consumer of gold, driven primarily by the gold jewellery segment, accounting for around 77% of the demand. This presents significant growth potential for organized retail.

The major driver of this demand are cultural factors, especially the importance of gold in weddings, where it holds deep sentimental and cultural value. Additionally, gold's reputation as a reliable store of value during economic uncertainties makes it an attractive investment option. The growth in disposable income in various regions has further fuelled demand as people have the financial capacity to invest in gold jewellery. Furthermore, the strong connection between gold jewellery and traditions and customs enhances its popularity. Changing fashion trends and the quest for innovative and contemporary designs have also boosted the demand for gold jewellery.

In addition to this, the rapid growth of the e-commerce sector in India has significantly influenced various industries, including gold jewellery. Traditionally, Indians purchased their favourite gold jewellery locally, but consumer preferences are evolving with more Indians opting for the convenience of online shopping. This growth is driven by pent-up demand, recovering discretionary spending, and renewed consumer confidence, highlighting the potential and resilience of the organized gold jewellery retail sector.

Gold demand in India is projected to reach 855 tonnes in 2028, up from 774 tonnes in 2022. In the gold jewellery segment, factors such as a low starting point, pent-up demand, and an increase in weddings are expected to stimulate jewellery demand in the short term. Over the long term, growth is expected to be underpinned by improving economic conditions, urbanization trends, and rising disposable incomes. Government policies and the mandatory hallmarking of gold are seen as positive developments for the industry, particularly for organized players, in the long run. Nevertheless, inflation and geopolitical events are anticipated to have an impact on demand.



Source: Industry Articles, Dun & Bradstreet Research

As disposable income continues to rise, the expanding middle-class population, rapid urbanization, and a preference for investing in gems and jewellery, the domestic diamond industry is also expected to experience robust demand in the coming years.