

# Gems and Jewellery Industries Culture and Sensitivity a case study of Karnataka

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## Abstract

India is one of the largest exporters of Gems and Jewellery. The industry plays a vital role in the Indian economy for its role as a major contributor to the total foreign exchange reserves of the country. The overall net exports of Gems and Jewellery registered an annual growth of 9.1% to reach \$ 35.6 bn during 2016-17. Exports of cut and polished diamonds, gold jewellery and silver jewellery registered a growth of 10.2%, 1.9% and 35.9%, respectively during 2016-17. Exports of gold coins and medallions from India stood at \$ 1.9 bn, while exports of silver jewellery stood at \$ 3.3 bn during April 2017-February 2018. India is also a major importer of gems and jewellery. The imports of gems and jewellery increased at a CAGR of 7.8% from \$ 11.63 bn in 2004-05 to \$ 28.8 bn in 2016-17. The imports during April 2017-February 2018 stood at \$ 28.3 bn. US, Hong Kong and UAE are the major exporters, who accounted for 75% of the total gems and jewellery exports from India during 2016-17. Other big importers of Indian jewellery include Russia, Singapore, Latin America and China.

The market size of Gems and Jewellery in India contributes to about 7% of the country's GDP. Gems and Jewellery industry contributes to about 16% to India's total merchandise exports and has grown at a CAGR of over 14.8% over the last 50 years. The Gems and Jewellery industry in India is one of the largest in the world, contributing 29% to the global jewellery consumption. The overall market size is expected to reach \$ 110 bn by 2022 from approximately \$ 60 bn in 2017. The industry that currently employs over 4.5 mn people, is expected to provide employment opportunities to over 8.2 mn people by 2022.

This study is on the culture research, sensitivity and method forward for jewelry and gem exchange of India, because this sector plays an enormous role among the Indian economy one in every of the fastest growing sectors contributing around 6-7 per cent of the country's gross domestic product. This study is conducted with the help of case studies and reports published to throw light on the market scenario of India and the expected growth in jewellery and gem industry. China and India are leading the market in terms of process jewellery and gems, supported its potential for growth and price addition; the govt of India has declared the gems and jewellery sector as a spotlight house for export promotion.

*Key words: Jewellery and gem industry, Indian market, marketing research. Culture.*

## Introduction

The worldwide gems and jewellery trade is to boot expected to witness high demand among the near future owing to the enlargement among the consumption of branded jewellery. It's expected that branded jewellery will gain an enormous share among the market over the forthcoming years. This study is to provide an extensive understanding and analysis about jewellery and gems industry in India. This sector has a rapid and stable growth over a long period of time in India. The enlargement and renovation in the incomes of middle class and urbanization have led to a trigger in the consumerism in India. The branded retail is growing in India quickly; subsequently this is paving way for a better and organized industry with more structured jewelry and gem stores across India. The traditional preference of jewelry on auspicious occasions such as weddings, festivals, various functions and ceremony(s), etc; are the prime reasons for this craze in India for jewelry and gems. In spite considering gold and stones proposed as a portrait of predicament and valuable assets. The fall in to place in behavior and practice the consciousness bounded by women has notably increased the outlay of gold as bar pin for wearable purposes in original times. Earlier, gold and gems were predominantly considered for investment purposes and status symbol. Apart from these there are various other reasons to get on global popularity for Indian jewellery such as the large variety of designs & collections, top notch quality & durability, impeccable & artistry craftsmanship and the pioneered process in cutting, polishing various stones and gems in a more cost efficient manner. The jewellery and gem industry in India operates at all levels starting from mining to sourcing, processing, designing, cutting and polishing. This includes gold, gemstones and precious metals. In gold, India is the second largest consumer. Over 20% of the global gold consumption is done by India. India is leading the market as hub of the world, in diamond cutting and polishing and also the third largest market for polished diamonds after USA and Japan respectively. The substantial reserves of gold, diamond and other gems of India are very strong and commendable. Indian jewelry market commands the percentage of market share in the value sales and percentage of global market on the basis of number of pieces of diamonds sold. Irrespective of the mining location, out of every 15 diamonds (approximately) sold all over the world have been processed and designed in India. This sector has been playing a key role in the economy of India. The jewelry and gems sector in India has alone contributed around 6-7% of the Indian GDP every financial year. The employment opportunities in this sector are getting bigger and bigger every year, and many are getting benefited out of it. On the other hand the earnings from foreign exchange are also in the boom because of this sector. On the whole, the jewelry and gem industry in India is playing a cohesive role.

## Objective:

This paper seeks understand culture and sensitivity with respect to Gems and Jewelry industry Karnataka as case study

## Indian Market Cultural Scenario

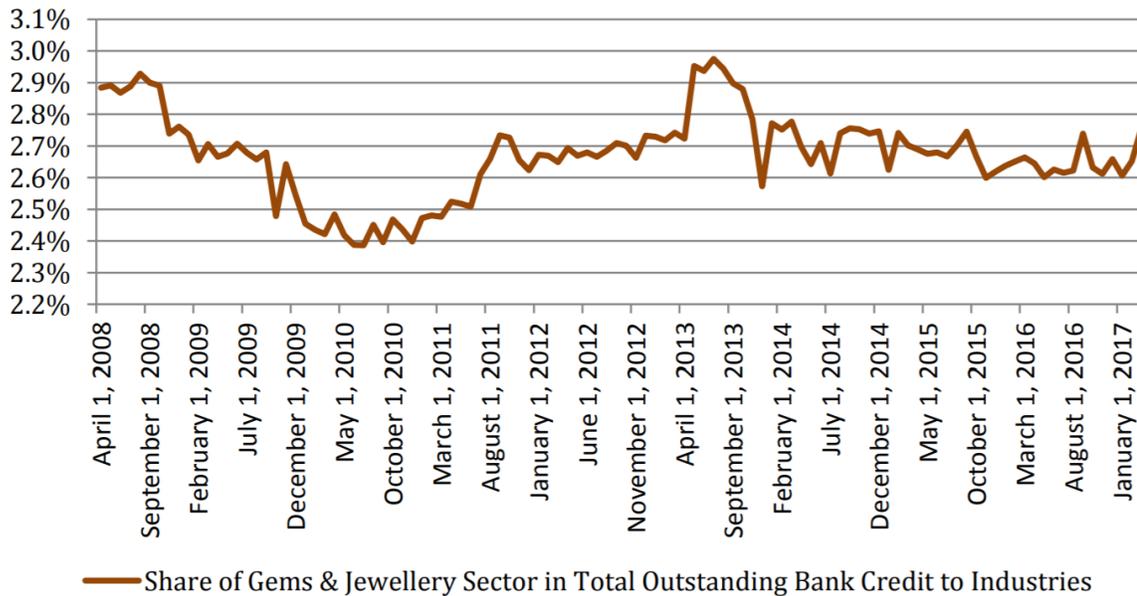
The jewelry and gems sector in Republic of India is extremely labor intensive and majorly export destined. Gold and diamond are the two primary segments in India. This sector plays a significant formidable role in the Indian

economy. To promote the “Brand India” in the global market the Government of India has taken various steps to pull in the latest and upgraded technology, investments and skills. In today’s market scenario India is deemed to be the hub of this sector due to the availability of the highly skilled labour force at a low cost. There are various trade policies formulated by the Government of India for this sector. According to a recent study, this sector is said to grow at a CAGR of 15.90% over the period 2014-2019. The FDI for the past 15 years had been US \$716.95 Billion in gold and diamond ornaments. This was released by the Department of Industrial Policy and Promotion. In the FY14, then wipe out and new diamonds had reached US \$19635 Million, mutually a review of 12.65% in export. On the other common laborer the imports of diamonds were on a fall into place of 11.98% in the resembling year. 163.11 Million carats of serrated diamond were imported by the India outlay of US \$16.34 Billion. The dispatch was 36.46 Million carats and US \$20.23 Billion in 2013 respectively. More than 80% of age for gold ornaments comprises of domestic jewelry consumption by the whole of other incalculable stones and metals. In the total retail market the organized retail market constitutes about 8%. In India Jewelry and Gems manufacturing constitutes 6% to the lock, stock and barrel organized retail. The farther pie block out has the statement, for it.

### **India’s Position on the Global Front**

India is deemed to be the hub of the global jewelry market because of its low costs and availability of high-skilled labor. India is the world’s largest cutting and polishing center for diamonds, with the cutting and polishing industry being well supported by government policies. Moreover, India exports 95 per cent of the world’s diamonds, as per statistics from the Gems and Jewelry Export promotion Council (GJEPC). The industry is projected to generate up to US\$ 35 billion of revenue from exports in 2015. India's Gems and Jewellery sector has been contributing in a big way to the country's foreign exchange earnings (FEEs).

The Government of India has viewed the sector as a thrust area for export promotion. In FY14, India's gems and jewellery sector contributed US\$ 34.75 billion to the country's FEEs. The diamond market’s skyrocketing growth in the key developing markets of China and India moderated in 2013 amid economic slowdown. Due to continuing economic uncertainty, diamond sales in Europe suffered. However, the USA and Japan registered a growth in sales. Globally, jewelry demand was up 37% in the quarter ending September 2013 to 576 tonnes. In China, demand was up 54% compared to a year ago; while in India demand increased by 51%. There were also significant increases in demand for gold jewelry in other parts of the world: the Middle East region was up by 33%, and in Turkey, demand grew by 38%. India’s domestic Gems and Jewelry market is equally strong. The domestic gems and jewelry industry had a market size of INR 251,000 crore (US\$ 40.45 billion) in 2013, with the potential to grow to INR 500,000–530,000 crore (US\$ 80.59-85.43 billion) by 2018, according to a study by a leading industry body. The study projected that the country's gems and jewelry market could witness exponential growth driven by a healthy business environment and the government's investor friendly policies(O'Byrne, 2013).



Source: RBI

### Cultural Challenges Faced by the Industry in Karnataka/India

Indian gems and jewellery sector is one of the most significant constituent of the Indian economy. It is responsible for bringing in valuable foreign exchange and contributes about 6-7% to the Indian GDP. In addition gems and jewellery industry is a labour intensive industry and it is responsible for generating lakhs of jobs each year. This is one sector where India has a strong global name and it is ranked as the largest exporter of gems and jewellery in the world. In 2016 the sector saw exports of \$32 billion and grew at a healthy 12%. In terms of segments, exports for 2015-16 included: Cut and polished diamonds: US \$20 billion, gold medallions and coins: US\$ 5.2 billion and silver jewellery: US\$ 3 billion. There is a lot of demand for Indian gems and jewellery all over the globe. UAE, US, Russia, Singapore, Hong Kong, Latin America and China are among the most important importers. As per estimates, India exports 95% of world's diamonds being largest cutting and polishing centre for diamonds in the world. Research and markets expects the jewellery market in India to grow at a compound annual growth rate (CAGR) of 15.95% between 2014 and 2019. The key centres for the trade are in Surat and Mumbai. About 80% of exports for diamonds happen out of Surat which has over 3,500 diamond processing units. These two centres are known for its expertise in the diamond processing space.

**Dependence on Import:** The gems and jewellery industry is highly dependent on import for meeting its raw material requirements and among the imported commodities rough diamonds account for almost 50% of the imports. India is also one of the largest importer and consumer of silver in the world. **Lack of Financial Support:** The industry is also facing problems in terms of financial assistance from the banks, which is evident in the below table which highlights the gross credit deployment to the industry: The gross credit deployment towards the gems & jewellery industry has been increasing in value terms; but still it is less than 3.00% during the last five years and stood at around 2.74% of the total credit deployment towards industry in 2013. As the market is especially entrenched by tiny

players, banks & monetary establishments hesitate to produce them help or they elicit personal collaterals in conjunction with high rate of interest, which successively jeopardizes the monetary health and growth prospects of the entity and its house owners.

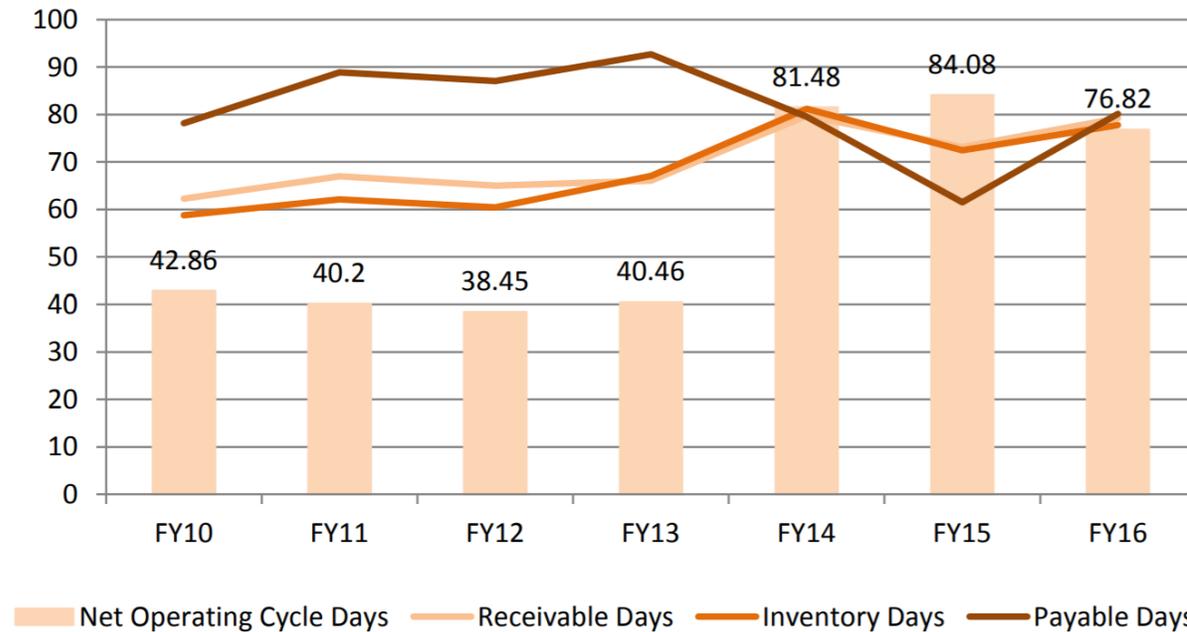
*Fluctuations in Exchange Rate:* Gems and jewellery trade is influenced by the rupee/dollar rate of exchange as a result of its export & import orientating trade. Any variation within the exchange rates affects the margins of the players. Changing Consumer Preference: International promoting needs keeping pace with dynamical fashion of Gems and jewellery notably within the context of terribly high costs of diamond, gold and silver. Republic of India isn't having enough style development centres to supply feedback and for innovation of latest styles to catch up with fashion desires of the foreign consumers. Makers craft specific style of gems and jewellery merchandise in line with the market demand. However owing to modification of fashion, demand of that style of product starts decreasing and eventually it finishes. this case blocks the manufacturer's capital and results in inventory assemble.

*Competition Threat:* Presently Republic of India is that the dominant player as a process hub for diamond, however she faces future threats in terms of competition from varied countries; one amongst them is China, attributable to low-cost economic labour, infrastructure and a hospitable government. Technology is another side wherever the Indian gems jewellery business faces a significant threat from China. Aside from China, Israel and European nation are rising as diamond process centres; these countries are technologically additional sound and economical than India. The diamond manufacturing nations also are building infrastructure for diamond process to achieve economic blessings.

### **Why Invest In The Indian Gems & Jewellery Industry?**

India offers a beautiful investment and business chance for large players inquisitive about establishing a powerful foothold within the Country. This could be attributed to numerous factors just like the Country's growing domestic market and particularly the growing socio-economic class, the export advantage existing within the business as a result of illustrious Asian country accomplishment and also the FDI Policy and a number of alternative initiatives undertaken by the govt. of India. Not solely this, varied factors like low price of production and virtuoso however low price acquisition, facilitate maintain a healthy competition within the business. The main foreign markets for the trade are Europe, USA, UAE and urban centre. A number of the newer markets that are being centred on by the business players are the Latin America, Russia and continent. Demand in this industry can be divided into two categories - investment demand and consumption demand. Jewellery is considered as an investment option as it almost always has a good realisable value. For investment purposes Indians buy gold coins, bars and jewellery. A FICCI study says that during the period 2005-12 investment demand for gold bars and coins increased by a CAGR of 43% and that of jewellery by 22%. Consumption demand increased by a CAGR of 23% during the same period. 3 Earlier this industry was highly fragmented and run by small unorganised players. In the past few years though, some organised players have emerged in the industry. They follow certain globally accepted standards and believe in better services to customers. The industry is also adopting new and innovative marketing and trading tactics in

keeping with the times and changing technology, such as online trading, e-retailing etc. E-retailers offer better pricing options, greater variety, international patterns, third-party lab certification of all their products and easy payment schemes to gain a larger customer base. They are also expanding their reach in remote areas. However, buyers are still cautious of the quality and finish of such jewellery and approach this avenue cautiously. To promote this industry government has approved about 22 special economic zones for gems and jewellery.

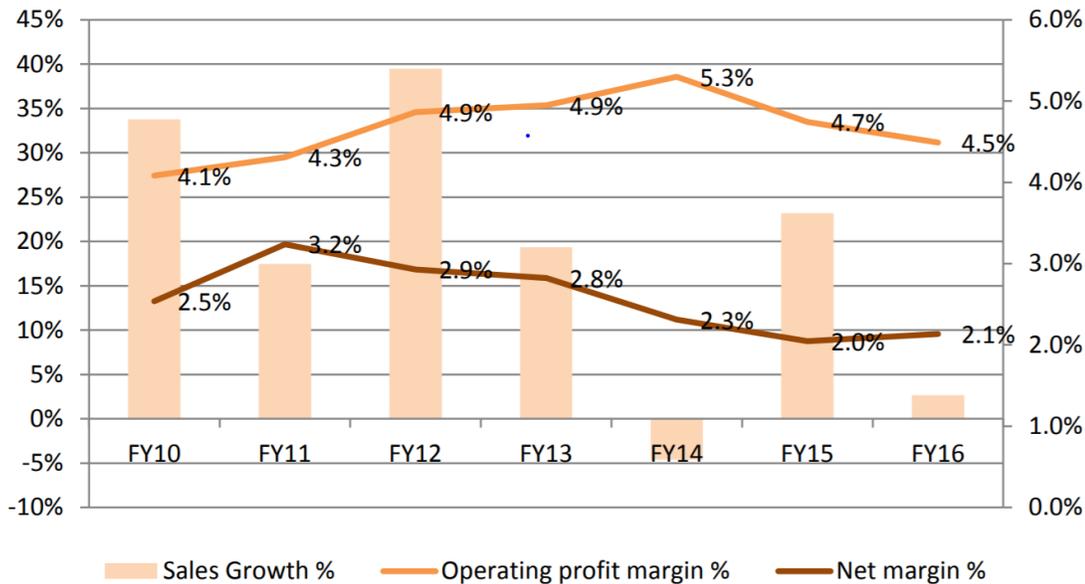


Gemstones and jewellery clusters have also been developed to promote the industry. Mumbai is the hub of the industry as it receives a majority of the country's gold and rough diamond imports. It has a considerable number of modern, semi-automatic factories and laser-cutting units and is also the largest manufacturer and wholesale market of machine made jewellery. As per a FICCI-Technopak study 'Unlocking the Potential of India's Gems and Jewellery Sector' principal Indian brands are planning to expand their business in tier-2 and tier-3 cities. Many foreign players are also exploring the potential of this industry in India. For instance, a London based colour gemstones mining and marketing firm, is planning to acquire colour gemstone mines in Odisha and Jharkhand, and participate in the exploration of the Kashmir sapphire mines in Jammu & Kashmir.

### Karnataka Credit exposure

Share of gems & jewellery sector in the total credit exposure of banks in Karnataka to industries has been in the range of 2.5% to 3%. The share of exposure dipped in 2009 and 2010 post the global financial crisis in 2008. However post 2011 the credit exposure of banks to the sector picked up; with y-o-y growth in bank credit exposure the sector continuing to be higher than the y-o-y growth in overall bank credit to industries till FY14. In FY15 - FY17, the share of gems & jewellery sector exhibited a dip. This was on the back of overall glut in the polished diamond market globally. At the end of FY18, there was again an improvement in bank's exposure to gems & jewellery sector, which was at Rs.727 billion as against Rs.690 billion at the end of FY17. However, this improvement is only a move back to the FY16 level. In FY19, due to Nirav Modi's alleged financial irregularities,

bank credit especially to the diamond segment has reduced and is expected to remain depressed. However, there are reports that banks are currently lending to organized gold jewellery companies who are expected to gain greater market share with implementation of GST.



Net sales of the abovementioned 12 companies grew and margins expanded in FY18 due to an improvement in product mix and higher sales of studded jewellery along with cost control. However, GST refunds and increasing working capital requirements have tempered numbers to some extent. A relatively long operating cycle and working capital intensive nature of business is an inherent characteristic of the G&J industry. However, the operating cycle increased from 48 days at end-FY12 to 92 days at end-FY18 primarily on account of a higher collection period and higher inventory. This affects liquidity and results in higher utilisation of bank credit. The changes in credit rating of the rated entities reflect improvement, stability or weakness in the financial health of these entities. These changes are captured in CARE Ratings' Modified Credit Ratio (MCR), and an increase in MCR denotes an increase in upgrades vis-à-vis downgrades, whereas a decrease in MCR shows the reverse. The MCR for Gems and Jewellery segment witnessed a decline due to weakening in credit quality and worsening of liquidity position for companies operating in the diamond segment of the Gems and Jewellery industry.

## Conclusion

As per a study by Mckinsey, consumers prefer branded jewellery which is expected to capture 30% of the total market by 2020. Organised players in the industry will help to build trust and faith in Indian brands in the international market and increase their reach globally. They will also create fair competition among brands. This will lead to innovations in new designs, processes and new methods of marketing. Better designs, new ranges and innovative marketing are the factors contributing to the growth of the organised sector. Modern ways of segmentation, targeting various consumer segments with specific designs and exclusive ranges and new usage styles attract a new set of consumers and create new markets.

Thus it is very important to gain and sustain momentum in this direction and focus on consumer research & innovation in design. The multiplier effect is simply the measure of how one factor changes in response to other factors. In other words, an initial change in economic activity has a sort of ripple effect on the local economy. This effect, is known as the multiplier effect. Evaluating multipliers, is an important tool in economic analysis and they are used extensively to assess the impact of a change in one economic indicator on various other economic indicators. Multipliers “connect the initial effect of a change in demand—due to purchases made by households or government or due to foreign trade, but not part of an industrial production process—to the total effect of that change on the regional economy. The total effect is reported here in terms of jobs, but it also could be measured in terms of output, sales, income or value added. Total effect has three main parts: direct, indirect, and induced effects.”

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