PRESS RELEASE

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Industry growth momentum to sustain in FY2025; one-time impact due to customs duty cut to moderate margins: ICRA

- ***Gold jewellery consumption growth pegged at 14-18% in FY2025 in value terms, led by favourable realisations***
- ***One-time impact due to customs duty cut to impact margins of retailers adopting formal hedging for gold purchase***

ICRA expects the domestic gold jewellery consumption (in value terms) to continue its momentum in the current fiscal with an estimated growth of 14-18% YoY. This follows the sharp growth of ~18% in FY2024, which was primarily driven by realisations even as volume growth was subdued. A sharp 900 bps cut in import duty in the Union Budget in July 2024 and consequent correction in gold prices for a brief period led to some pre-buying of jewellery as well as bars and coins during Q2 FY2025, which is generally a seasonally weak quarter. While gold prices were volatile, improving consumer sentiments and festive-led demand aided consumption growth in the recent months. This, coupled with higher number of auspicious and wedding days, and favourable monsoons aiding better rural output, is likely to help jewellery demand growth in H2 FY2025, in ICRA's view.

Revenue growth for organised jewellery in FY2024 had been supported by realisations with gold prices rising by ~14% YoY. The same trend is expected to continue this fiscal as well. So far in the current fiscal, the average gold price has risen by a sharp ~25% vis-à-vis FY2024 average price, despite occasional corrections – first, after the cut in customs duty in late July 2024 and then in November 2024, following the US elections and currency movements. The continuing uptick in the gold prices for the last seven quarters has been stimulated by the evolving global economic and geopolitical scenario, and rising investment demand for gold.

On the supply side, organised jewellers are expected to add 16-18% to their existing retail network in FY2025. Most large jewellers are opting for the franshisee model to expand into new markets given the twin benefits of low capital expenditure and knowledge of the local market with the franchisee-partner.

According to **Sujoy Saha, Vice President and Sector Head – Corporate Ratings, ICRA:** *"ICRA's sample set of 15 large retailers, which accounts for ~75% of the organised market, is projected to record a healthy YoY expansion of 18-20% in FY2025. Planned store additions with focus on Tier II & III cities, rising gold prices, shift in preferences towards branded jewellery and some likely pre-buying in Q4 FY2025 on account of higher number of auspicious days in Q1 FY2026 shall drive growth. The customs duty cut is also expected to disincentivise unofficial imports, thus supporting the growth in organised trade."*

ICRA estimates the industry operating margin in FY2025 to contract by 50-70 bps from 7.2-7.4% levels of FY2023 and FY2024. Nevertheless, ICRA expects the debt protection metrics of its sample set to remain comfortable, with interest cover projected to improve to 6.2-6.4 times in FY2025 from ~6 times in FY2024, driven by a rise in operating profit at an absolute level and a proportionately lower rise in interest cost due to the adoption of a more capital-efficient franchise route for store additions by the retailers. Most organised players have outlined expansion of their retail presence over the medium term; while this is likely to translate into market share gains, the margin could moderate due to front-loaded expenses.

"The projected moderation in the operating margin of ICRA's sample set of companies YoY in FY2025 to 6.5-6.7% is primarily on the back of one-time losses suffered due to customs duty cut in Q2 and Q3, by large retailers, that

adopt formal hedging practices for gold purchases. Subsequently, ICRA expects their operating margin to normalise in FY2026," **Saha** added.

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