

INDIAN GOLD JEWELLERY INDUSTRY

**Customs duty cut to boost demand
and support organised players to
gain traction**

AUGUST 2024





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The Union Budget's announcement of a sharp 9% reduction in import duty on gold augurs well for the domestic gold jewellery retailers.

The duty action has led to a correction in gold prices and is likely to revive demand in the coming quarters. It is also expected to reduce unofficial gold imports and accelerate share of organised trade in the sector.

With the price correction and improved sentiments, ICRA expects the industry revenue growth to be better at 13-15% against earlier estimates of 6-8% for FY2025.



- On July 23, 2024, the Government of India, as a part of the Union Budget announcements for FY2025, significantly reduced the import duty on gold bars to 6% (5% basic customs duty and 1% agriculture infrastructure development cess (AIDC)) from 15% (10% basic customs duty and 5% AIDC) earlier. The revised duty structure became effective from July 24, 2024, and is the lowest in over a decade.



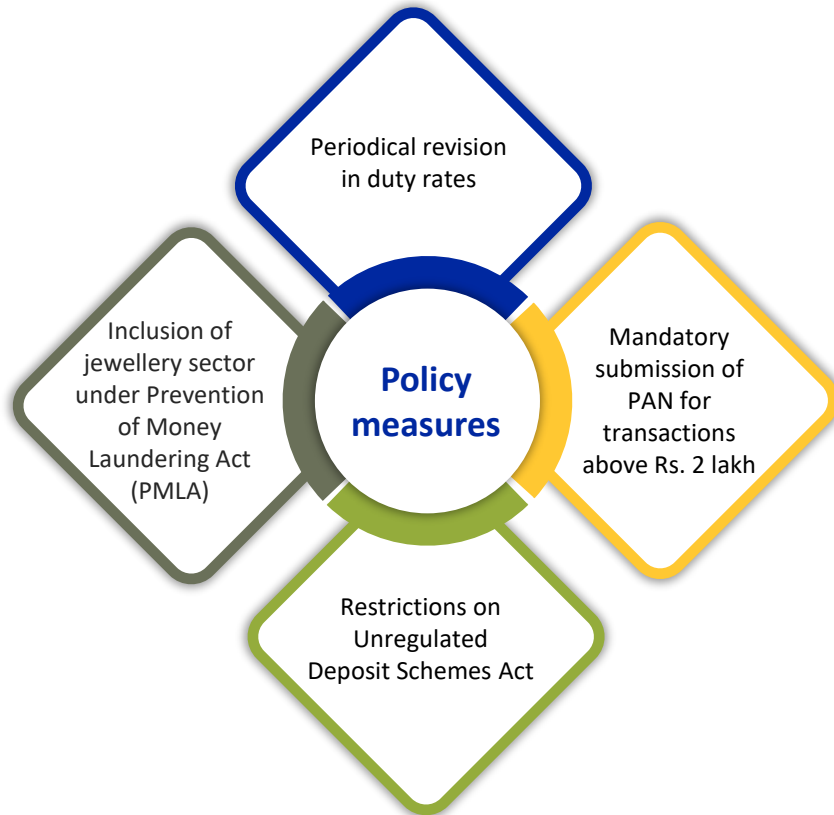
- Gold prices, which rose by 14% in FY2024 and by 20% in Q1 FY2025 on a YoY basis, have corrected in the domestic market following the reduction in import duty from July 24, 2024. This, in ICRA's view is likely to support recovery in demand for physical gold and jewellery in the current fiscal, which was otherwise expected to be subdued amidst sharp rise in gold prices. While the gold prices declined by ~5% post the announcement, the price movement would remain dependent on the evolving global economic and geopolitical environment and consumer sentiments.



- Over the past two fiscals, demand for gold jewellery grew by ~2% in FY2023 and ~4% in FY2024 (in volume terms) amidst sharp rise in gold prices. The fall in prices will revive consumer sentiments and if the monsoon turns out to be favourable in the remainder of the season, it will augur well for recovery in rural demand that accounts for nearly two-thirds of the gold jewellery consumption in India. ICRA also expects the duty cut to curb unofficial imports and accelerate organised trade within the sector.



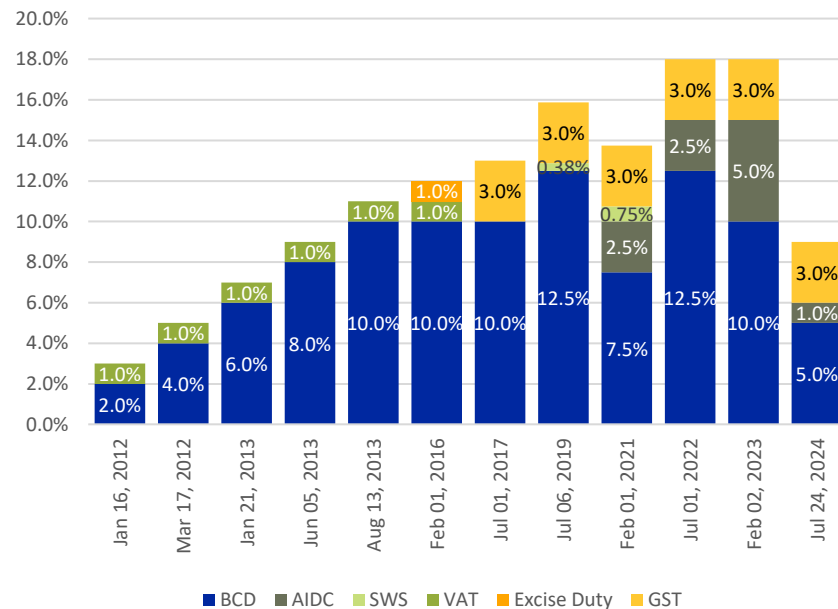
- ICRA's sample set of 15 largescale jewellery retailers, which account for ~75% of the organised market, is projected to record a revenue growth of 13-15% YoY in FY2025 vis-a-vis a 6-8% estimated earlier, on the back of expected improvement in demand in the coming quarters (amidst subdued Q1 FY2025). The operating profit margin (OPM) of ICRA's sample is estimated at 7.5-8% in FY2025 against ~7.2% estimated for FY2024 while the overall return on capital employed (ROCE) level shall hover at ~20%. However, in the interim, certain gold jewellery retailers, especially those with no or low hedging done on the gold prices, could face some inventory losses due to the sharp decline in gold prices.



- In India, gold is the second-largest imported commodity in value terms (\$45.5 billion in FY2024), after petroleum and other mineral fuels. With domestic gold mining output being negligible and recycling (or exchange) of gold contributing only 10-15% of jewellery demand, the dependence on gold imports remains high. As the gold import bill has a large bearing on the current account position of the country, periodical policy measures (including changes in duty rates) have been a common phenomenon.
- With over two-thirds of gold jewellery business controlled by the unorganised segment and share of cash-based transactions being high due to varied customer profile and relatively lower banking penetration in rural areas, the need for continuous regulatory monitoring has been inevitable. Also, with instances of money laundering and rising share of unofficial imports over the years, policy measures on the sector have increased in the last decade.
- Some of the key policies, apart from frequent changes in duty over the years, include mandatory hallmarking of jewellery, bringing the sector under the Prevention of Money Laundering Act, compulsory submission of PAN for transactions above Rs. 2 lakh, banning of unregulated deposit schemes, etc. Such measures have and are expected to continue in supporting formalisation of the sector, protecting customers and promoting fair trade practices.

- Over the years, duty action on gold had considerable influence on the country's current account position. The actions were largely in the form of revision in import duty rates and with introduction of the Goods and Service tax (GST) in 2017, the overall duty/tax rate increased to 13%. Major action was undertaken in the Union Budget 2023 wherein the total customs duty was increased by ~425 bps.
- In the Union Budget 2025, total customs duty on import of gold was reduced by 900 bps (6% from 15%) with effect from July 24, 2024. For gold dore, the revised rate is 5.35% (down from 14.35%). The new duty rates are the lowest in the last decade. Platinum and silver bars also witnessed a similar duty cut of 9% to 6.40% and 6%, respectively.
- The sharp reduction in import duty rates resulted in a decline in gold prices in the domestic market and consequently the landed cost. This is likely to help in recovery of demand of gold jewellery, as a significant rise in gold prices in the recent past had dampened consumer sentiments.
- Moreover, the import duty rate cut is expected to bring down unofficial gold imports. On the flip side, the sharp correction in prices will result in short-term inventory loss (especially for unhedged exposures).

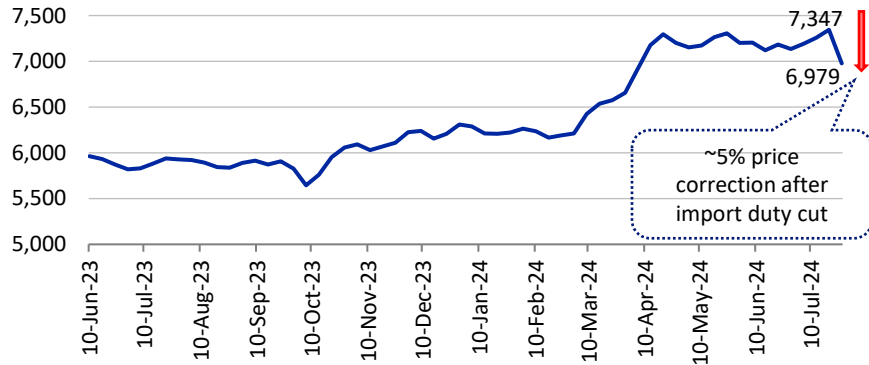
Exhibit: Trend in various duty rates and taxes applicable on gold in the last decade



Source: ICRA Research; SWS – Social Welfare Surcharge

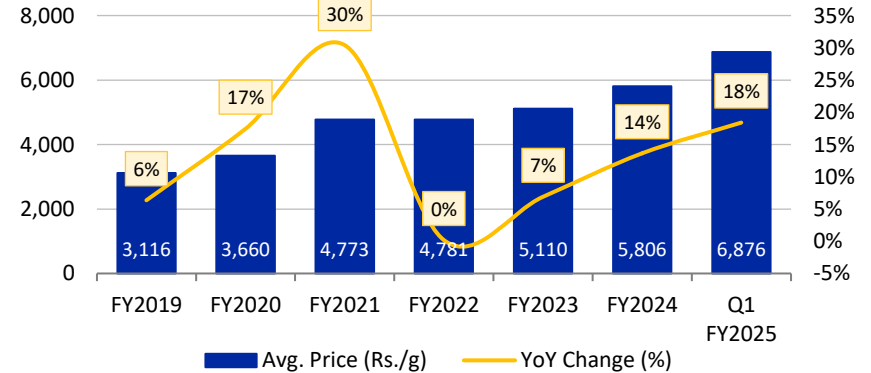
Gold prices fell by almost 5% post revision in import duties

Exhibit: Trends in annual gold prices (995 purity; Rs. per gram)



Source: CMIE, ICRA Research

Exhibit: Trend in weekly gold prices (995 purity; Rs. per gram)



Source: CMIE, ICRA research

- Gold prices in the international market have been on the rise since Q4 FY2023, buoyed by the evolving global economic and geopolitical environment, including recent tensions in West Asia, rising investment demand for gold amid expectations of interest rate cuts going forward, and gold buying by the Central banks of various nations. The average gold price in India surged by 14% on a YoY basis in FY2024 and inched to a new high in Q1 FY2025, which was 18% higher than the average price during FY2024.
- The reduction in import duty on gold by 9%, has led to a correction in gold prices in India. This is likely to boost consumer sentiments as elevated prices in the recent past had negatively impacted demand volumes for jewellery as most consumers are price sensitive and tend to delay non-essential purchases of gold and jewellery in periods of high volatility. Moreover, reduced price arbitrage in illicit trade with the import duty cut and a likely uptick in demand for physical gold are likely to benefit the jewellery retailers.

Impact of customs duty reduction to 6% from 15%

Jewellery demand to rise

Correction in gold prices is likely to push demand in the domestic market

Organised sector to benefit

Accelerated shift of business from unorganised to organised jewellers

Reduction in unofficial imports

Curb illegal import and smuggling of gold to India

Positive



Negative

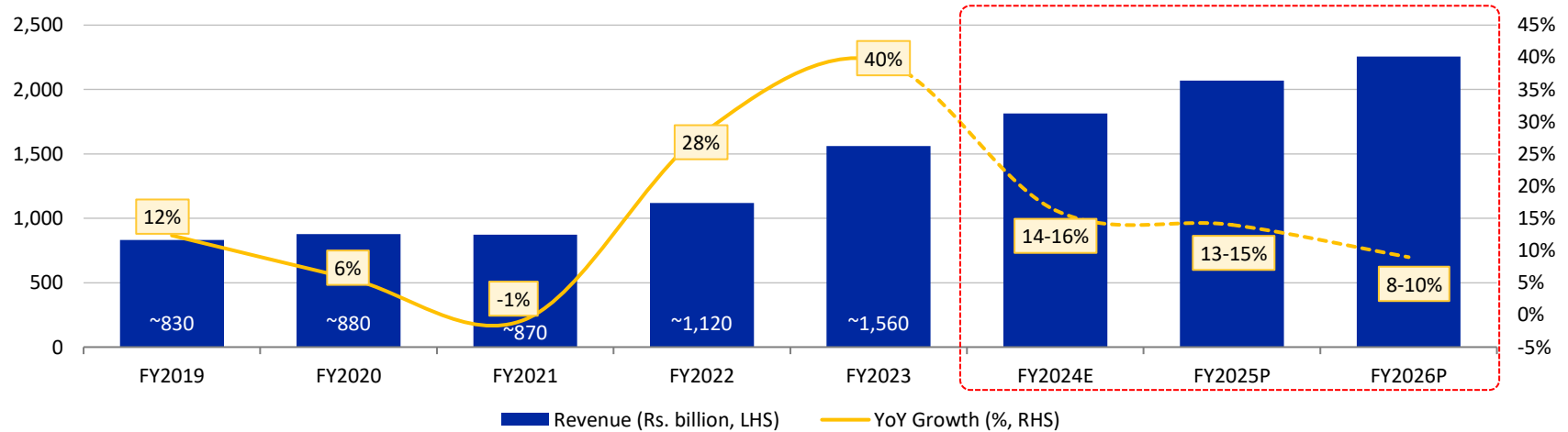


Inventory loss

Retailers, manufacturers and bullion dealers to suffer short term inventory loss, if the exposures are unhedged (it is estimated that around 60-70% of the organised trade is hedged)

Revenue growth forecast for FY2025 revised upward to 13-15% from 6-8%

Exhibit: Trend in revenues and revenue growth for ICRA's sample of 15 major organised players

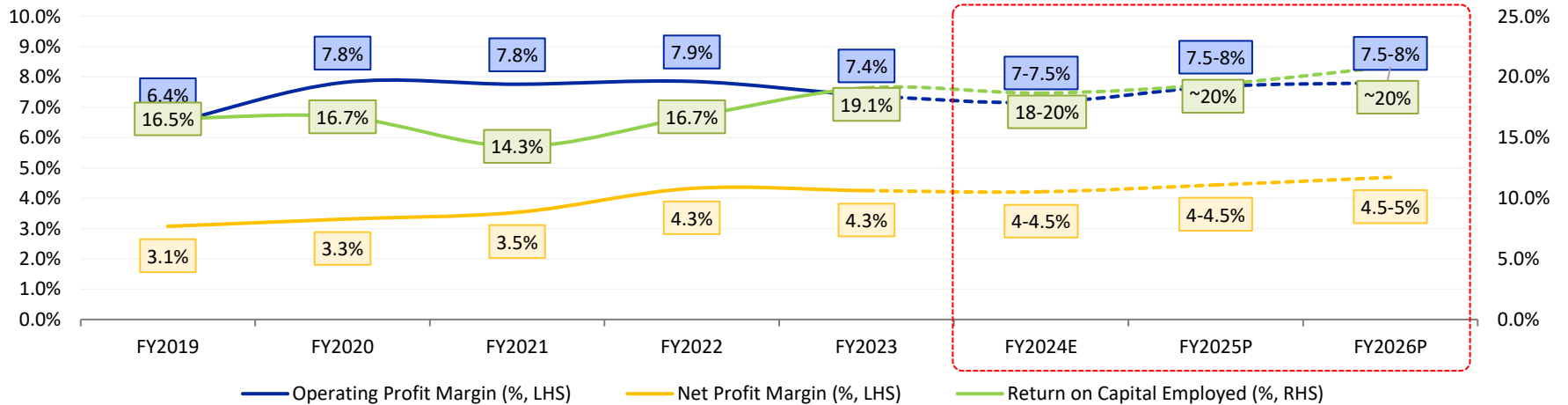


- The revenue growth of ICRA's sample of 15 major organised jewellery retailers is expected to hover at around 13-15% in FY2025 against ICRA's previous forecast of 6-8%. This is primarily driven by the likely increase in sales volume on the back of reduction in gold prices and curb on illicit trade/ smuggling, due to cut in customs duty, and likely reduction in sovereign gold bond issuance. Organised retailers are expected to fare better than the unorganized players.
- The gold prices in the international market, however, will continue to have a bearing on the domestic prices. Any sharp uptick in international gold prices amid the geopolitical uncertainties and evolving macroeconomic scenario, may offset the impact of the custom duty cut and dampen consumer sentiments.

Source: ICRA Research; Based on a sample of 15 major gold jewellery retailers in India including Titan Company Limited, Kalyan Jewellers India Limited, Alukkas Enterprises Private Limited, Joyalukkas India Limited, Senco Gold Limited, Thangamayil Jewellery Limited, M/s. Purushottam Narayan Gadgil, P.N. Gadgil & Sons Limited, Lalitha Jewellery Mart Private Limited, PC Chandra Group, GRT Group, Bhima Jewels Private Limited, Tribhovandas Bhimji Zaveri Limited, Manoj Vaibhav Gems 'N' Jewellers Limited and AVR Swarnamahar Jewelry Limited; ICRA's sample is estimated to account for ~28% of the industry and ~75% of organised industry in FY2024 (based on revenue).

Operating margin to hover at ~7.5-8.0% in FY2025 and FY2026

Exhibit: Trend in profit margins for ICRA's sample of 15 major organised players



- ICRA estimates the operating profit margin of its sample set to have sustained at ~7% in FY2024. The benefits of economies of scale are likely to have absorbed the impact of higher operating costs on new retail showrooms, partly due to many jewellers adopting the franchisee model for expansion.
- Despite an increase in the front-loaded operating expenses on new store additions and a significant rise in advertising expenditure, the profitability of ICRA's sample set is expected to improve in the medium term, notwithstanding a likely inventory loss in FY2025 due to the recent price drop. The margins are likely to be supported with recovery in volumes post a relatively subdued Q1, apart from the cost control measures being taken by retailers.

Source: : ICRA Research; Based on a sample of 15 major gold jewellery retailers in India



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Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Senior Vice-President	shamsherd@icraindia.com	124 – 4545 328
K Srikumar	Senior Vice-President	ksrikumar@icraindia.com	044 – 4596 4318
Sujoy Saha	Vice-President	sujoy.saha@icraindia.com	033 – 7150 1184
Sovanlal Biswas	Assistant Vice-President	sovanlal.biswas@icraindia.com	033 – 7150 1181
Sandipan Kumar Das	Assistant Vice-President	sandipan.das@icraindia.com	033 – 7150 1190





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





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