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INDIAN CUT AND POLISHED DIAMOND (CPD) INDUSTRY

Global slowdown to take shine off the CPD industry

MARCH 2023

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Executive Summary

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After an expected contraction of 8-10% in FY2023, Indian CPD exports are likely to further moderate by ~10% to ~$20.0 billion in FY2024. This, along with continued unfavourable rough-polished price differential, is expected to trim the operating profit margins (OPM) of Indian diamantaires by up to 25-50 bps from FY2023 levels. While this would result in a moderation in credit metrics of CPD players, controlled working capital cycle would keep the overall debt levels under check.

- In FY2023, CPD exports from India are likely to contract by ~8-10%, in line with ICRA's earlier expectations. This is being driven by macro-economic headwinds, tightening of surplus liquidity as well as the opening up of other spending avenues such as travel and hospitality.

- Given the global demand slowdown led by inflationary pressures across the globe and recent banking crisis, ICRA expects CPD exports from India to further contract by ~10% to $20 billion in FY2024.

- Rough prices are expected to remain firm in FY2024 given the stagnant production levels and absence of any major announcements towards investments in new mining projects and exploration.

- Polished diamond prices, on the other hand, softened throughout CY2022 amid a slowdown in demand. The demand pressures are more prominent in the large-sized diamonds where down-trading to smaller sized diamonds is observed due to inflationary pressures.

- In FY2023, the OPM of CPD players is likely to decline by 40-50 bps given the unfavourable rough-polished price differential.
- ICRA estimates a further contraction in OPM in FY2024 by up to 25-50 bps to ~5-5.25%.

- While the credit metrics in FY2023 and FY2024 would moderate on a YoY basis, they shall remain better than the pre-pandemic levels due to controlled inventory levels in the backdrop of limited supply of roughs and subdued demand conditions. Coupled with no major increase in receivables, this will reduce their dependence on working capital debt, thereby partly mitigating the impact on their credit profiles.

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Thank You!