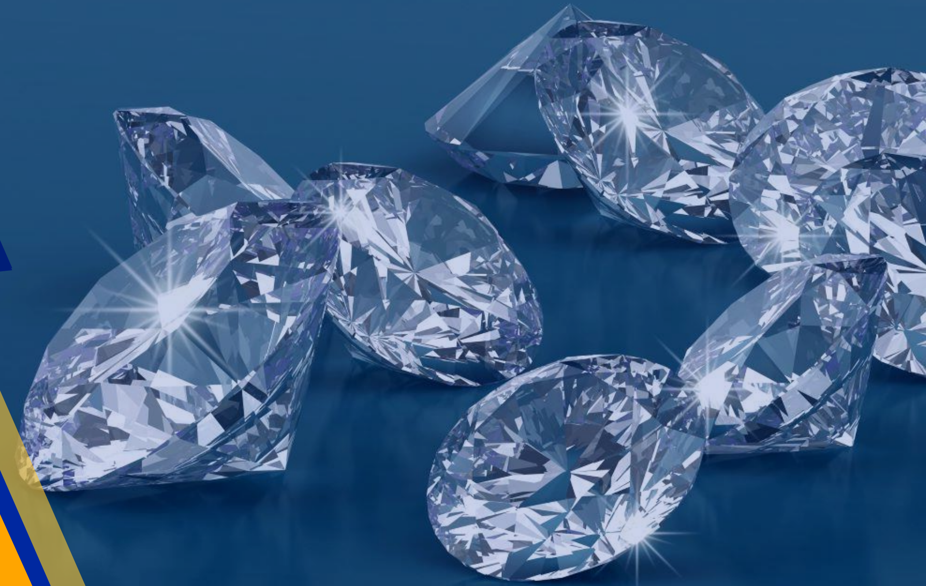
ICRA

INDIAN CUT AND POLISHED DIAMOND (CPD) INDUSTRY

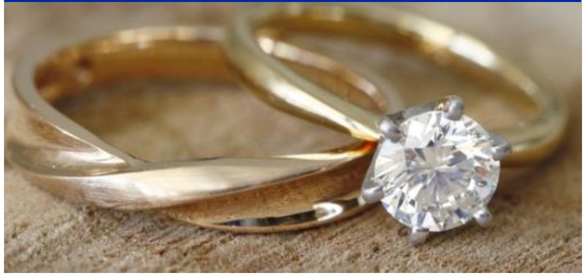
CPD exports to remain below pre-pandemic levels in FY2024 and FY2025; sector outlook remains Negative

MARCH 2024



What's Inside

1 Indian CPD price trends; global demand-supply scenario



2 Sparkling rise of lab-grown diamonds

3 Financial performance

4 ICRA ratings

Executive Summary

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*ICRA's continued **Negative** outlook on the sector reflects the opinion that CPD exports are not expected to reach pre-pandemic levels in the near term. While controlled working capital cycle partly counterbalanced the impact of demand slowdown and weakening of margins, continuation of the same in FY2025 would be critical from the credit perspective.*

- In 10M FY2024, CPD exports from India contracted by 28% against ICRA's earlier estimates of a 22% CPD export decline for FY2024. This was on account of lower-than-expected recovery in the US festive season owing to worsened macro-economic conditions and competition from lab-grown diamonds (LGD). Demand from the US and China (key consuming markets) remained subdued amid inflationary pressures. Some improvement in CPD export volumes, driven by the upcoming festive season, will lead to 13% YoY growth to ~17.6 billion in FY2025.
- While improvement in volumes was minimal in the festive season, overall export volumes are expected to moderate by ~24% YoY in FY2024. This would translate into a 30% decline in the value of exports in FY2024 to ~$15.6 billion. Given the continued breach of the negative outlook threshold of a contraction of 15% for the sector, ICRA has retained its sector outlook at Negative.
- While the prices of rough diamonds declined in the recent months, the overall prices remained at elevated levels in FY2024. Any meaningful correction in rough prices in the near term is likely to be limited, driven by G7 sanctions on Russian origin diamonds, which accounts for close to ~30-35% of the global production.
- Polished diamond prices, on the other hand, have continued to witness pressure amid demand slowdown, which remains prominent across 0.50-3 carat sizes. They are also facing competition from lab-grown diamonds, particularly in 1-3 carat sizes. With expected recovery in demand in FY2025, polished prices are likely to inch up during the year.
- In FY2024, the OPM of CPD players is likely to decline by around 40 basis points to ~5.0%, given the continued unfavourable rough-polished price differential. However, in FY2025, the OPM of CPD players is likely to improve by around 40 basis points to ~5.4%, with the likely improvement in rough-polished price differential following some recovery in global demand. Similarly, the net profit margin (NPM) may also improve by around 30 basis points to ~2.6% in FY2025.
- Going forward, inventory management will be critical as CPD players may witness pressure to purchase the roughs from miners in the next fiscal, which were deferred in the current year (as De Beers allowed its sight-holders to defer rough purchases by two months in FY2024). If the demand slowdown persists next year, rise in dependency on working capital debt for CPD players can have an adverse impact on their credit profiles.

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Thank You!