

Watches and Jewellery | Focus: India

Downturn brings tough times for Indian jewellers

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The high price of gold has seen a decline in demand for the precious metal, writes **Amy Yee**

Weddings in India are memorable for the riot of colour, from bright red saris to orange garlands. But gold is the most dazzling colour in the necklaces and bangles draped upon the bride and groom. Gold is so deeply ingrained in Indian culture that Hindu weddings are incomplete without it. Major Indian festivals revolve around the metal for its auspicious symbolism of wealth. India's appetite for gold is so keen that the country is the world's largest importer, accounting for about a quarter of global sales.

But recently the unthinkable has happened: gold has lost some of its lustre in the face of record prices and competition from other luxury goods and lifestyle products such as mobile phones and vacations. Demand for gold jewellery in India plummeted 47 per cent to 118 tonnes in the second quarter of this year, says the World Gold Council, an advocacy group for the world's largest gold-mining companies.

The changing landscape in India is forcing the industry group to become more innovative about keeping gold relevant to consumers. Changes are also taking place across India's gem and jewellery industry. It is said that 11 out of 12 diamonds sold in the world are cut and polished in India. But the country's gem industry is feeling the effect of a sharp slowdown of jewellery sales in the US, the world's biggest market for diamonds.

"The industry is going through

so much turmoil," said Anil Kumar, managing director of Virtus Global Partners, a financial advisory firm specialising in deals between the US and India. "People [in the US] aren't buying jewellery because of the economic climate. Sales have dropped significantly."

To boost sales of gold jewellery in India, the World Gold Council last year launched its most aggressive marketing campaign to date, with a nationwide television advertising campaign featuring Indian celebrities clad in gold jewellery. It also sponsored a contest to encourage designers to come up with sleeker, more contemporary jewellery in order to appeal to the younger generation. To modernise traditional jewel-

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lery designs made of heavy, butter-yellow 22-carat gold, the World Gold Council is developing "youth brands" such as "Collection g" - lightweight designs made of 18-carat gold.

The World Gold Council is also helping retailers with marketing and promotion. In August, it partnered with Joy Alukkas, a Dubai and India-based retailer, in a marketing campaign aimed at Indians in the Gulf countries.

India began to focus on the business of cutting and polishing rough diamonds in the 1960s, says Sanjay Kothari, chairman of the Gem and Jewellery Export Promotion Council of India.

"No one had thought we would get diamonds started," recalls Mr Kothari. "Slowly, slowly, India democratised diamonds."

As the world's largest processor of diamonds, India is an important link in the global chain that connects mining in Africa, trade in Antwerp and Israel, and sales in the US.

India accounted for nearly 60 per cent of the world's cut and polished diamonds in terms of value in 2005 and exported \$11bn worth of diamonds that year. However, less-valuable small- and medium-sized stones account for most of the diamonds processed in the country, according to a KPMG report.

India is trying to move up the ranks to cut and polish larger, more lucrative diamonds - work that is still typically done in Europe and Israel. It is also becoming a player in jewellery manufacturing with a 14 per cent share of the global market in 2005, according to KPMG.

India also claims a fast-growing domestic market. Jewellery sales in the country grew about 7 per cent year-on-year to reach about \$13bn in 2006.

Yet prospects for its jewellery industry have been dulled by the economic downturn in the US and an unfavourable dollar-rupee exchange rate.

With the US accounting for half of global diamond sales, "replacing that market is not easy", says Mr Kothari.

Some Indian companies are trying to diversify into distribution and sales to bolster razor-thin margins earned from diamond processing.

To try to gain a firmer foothold in the critical US market, Indian retailer Gitanjali Gems bought US jewellery chain Samuels for \$45m in 2006.

"There is brutal competition in India," said Mr Kumar of Virtus, which advised Gitanjali on the acquisition.

"Retailers make about 7 per cent margin," he says. "Manufacturers make about 2-4 per cent



Hindu traditions: Buying gold on Pushya Nakshatra is considered very auspicious

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margin. They are always under pressure."

The outlook is likely to become cloudier. US jewellery chain Whitehall filed for bankruptcy this summer, joining more than half a dozen jewellery retailers that have fallen casualty to the

global credit crisis and the US economic downturn.

Once a US retailer goes bankrupt, it can wipe out business for its Indian jewellery suppliers. "Indian companies have been hit very badly," says Mr Kumar.

Mr Kothari of the Gem and

Jewellery Export Promotion Council cautions that the US downturn is just part of the cycle.

But maintaining his upbeat attitude, Mr Kothari adds that the Indian jewellery industry is "trying to find ways to survive".

A shining star of Indian design

Viren Bhagat has redefined Indian craftsmanship. He re-styled historical Indian gemstones in the style of the Mughal Era - an epoch symbolised by the iconic building, the Taj Mahal.

So sought after are Mr Bhagat's designs that, in 2007, a diamond and pearl pendant necklace sold for \$958,400, having been estimated at \$600,000 to \$800,000.

Mr Bhagat favours pearls from Bahrain, prized for their rarity, and diamonds hailing from the 17th and 18th centuries. "The cut of older stones is not so bling. Older stones hold a softer, subtler charm, like a quiet whisper that signifies old wealth," he says.

A century ago, Mr Bhagat's great grandfather started as a goldsmith in Lathi, a tiny village on the western coast of India. Today Mr Bhagat, who has no formal art education despite a father who was a professor of art, caters to the sophisticated tastes of the global elite.

His clients range from Bollywood stars to wealthy bankers and Russian oligarchs.

"Most Indian jewellers make bespoke jewellery for clients, but I refused to do that from day one. I've built my reputation from making my own jewellery," he explains.

However despite his success, Mr Bhagat's small Mumbai store is his only retail outlet.

"The pieces are selling before they are even made. Now that India is booming, I simply can't make enough pieces to sell elsewhere," he says.

However he does have plans for stores in Delhi and London. "London is the centre of the universe for me. There are so many wealthy people there with good taste," he says.

Mr Bhagat is also in discussions with US department store chain Bergdorf Goodman about a limited edition hand-finished jewellery collection.

"It would ease the pressure and enable us to expand. I envisage this as a lower-priced collection of everyday jewellery," he says.

Despite this, Mr Bhagat is confident that his most precious pieces will retain their value.

Claire Adler