Gems and jewelry are vital contributors to the country’s economy, but the industry is facing some tough challenges. A comprehensive transformation could lock in sustainable growth.
Preface

The gems and jewelry sector is one of the most important sectors of the Indian economy and has also been one of the fastest growing over the past few years. The sector is highly export oriented, labor intensive, and a major contributor to employment, GDP, and foreign exchange earnings.

The domestic gems and jewelry industry had a market size of INR 251,000 crores in 2013, with the potential to grow to between INR 500,000 and 530,000 crores by 2018. In recognition of its immense potential and contributions, the Indian government has also declared the sector a thrust area for export promotion.

However, the industry has been adversely affected by the increasing current account deficit (CAD) and restrictions on gold imports. These restrictions are inadvertently leading to a state of panic in the jewelry manufacturing sector.

While resolving the CAD issue requires a study of both export and import measures, it is also important to seek a balanced approach that safeguards the interests of all stakeholders. Although the CAD situation is improving, the turbulent times for the sector have not ended.

This report is an effort to highlight the current status of the gems and jewelry sector, along with the issues and challenges that exist and appropriate solution themes. I am hopeful that this study will give us vital insights into—and pertinent answers for—one of the oldest industries of this country.

We look forward to receiving your suggestions.

Dr. A. Didar Singh
Secretary General, FICCI
Foreword

It gives me great pleasure to present the latest knowledge paper on the Indian gems and jewelry sector, All That Glitters Is Gold, painstakingly prepared by A.T. Kearney.

The gems and jewelry sector has played a very important role in the Indian economy, contributing 6 to 7 percent of the country's GDP in addition to large-scale employment generation and foreign exchange earnings. However, I am pleasantly surprised by the fact that the value created by the industry—estimated at about INR 1,00,000 crores—is as high as the apparel sector and much higher than many other sectors in India.

The steps taken by the Indian government to liberate the gems and jewelry sector in the 1990s helped lead to the increased export contribution of this sector. The liberalization has also resulted in a shift to a more organized set of players, which led to greater transparency and the adoption of higher quality and design standards.

The recent steps taken by government to restrict the import of gold are having a negative impact on the industry. We hope this is only a short-term measure and the government quickly removes restrictions on gold consumed for jewelry manufacturing.

I’d like to take this opportunity to thank the FICCI team for all of their efforts to initiate this insightful paper.

Sincerely,

Mehul Choksi
Chairman, FICCI Gems & Jewellery Committee
Contents

Executive Summary 2
Value Chain in India 7
Industry Size and Importance to the Economy 16
Challenges Faced by the Industry 30
Imperatives for Sustainable Growth of the Industry 42
The Way Forward 50
Executive Summary

The gems and jewelry industry plays an important part in the Indian economy. In addition to boasting a large gems and jewelry market, India has a unique situation in terms of both demand and supply. The domestic gems and jewelry industry had a market size of INR 251,000 crores in 2013, with a potential to grow to INR 500,000 to 530,000 crores by 2018.

The gems and jewelry industry plays a role in large-scale employment generation, foreign exchange earnings through exports, and value addition. The industry provides direct employment to roughly 2.5 million people and has the potential to generate additional employment of 0.7 million to 1.5 million people over the next five years. This is comparable to the 2.1 million jobs provided by IT services and is 2.5 times that provided by basic iron and steel manufacturing and automotive manufacturing. In 2012–2013, the industry drove jewelry exports to the tune of INR 227,000 crores, outperforming textiles and apparel exports by 25 percent. The industry also drove value addition of more than INR 99,000 crores, which is comparable to several large industries, for example apparel manufacturing.¹

Demand can be segmented into consumption and investment. Unlike most other countries, investment demand for gold is important in India and accounts for about 45 percent of total market demand. Around 57 percent of the investment demand comes from bars and coins, while the rest comes from jewelry. The high investment demand is driven by a lack of alternative financial institutions for a large section of society, a perceived capacity to hedge against inflation, the ability to invest smaller value in gold, high returns in gold over the past 12 years, and ease of investing unaccounted money in gold. Also, while the volume demand for gold as jewelry has remained more or less constant from 2005 to 2013, the volume demand for gold bars and coins has grown at a CAGR of around 13 percent in the same period.

From a supply side, the value chain consists of imports, mining, refining, trading, manufacturing, and retailing. This includes a mix of players catering to both consumption and investment demand. The Indian gems and jewelry industry is fragmented, with local players constituting about 80 percent of the overall market. The variances in consumer preferences in designs, quality, and material across different regions have historically presented a challenge for national and organized players to create design-led differentiation. The share of organized players in the industry is growing, specifically that of regional players. However, there is a risk of reversal in this trend because of increasing regulatory restrictions on gold imports and the price differential between the official and unofficial supply of gold in the market. The supply side is also characterized by several local and independent stores in rural areas that play the role of financing entity, providing customers an investment option and lending money against gold.

The industry faces several challenges impacting consumption and the investment demand side of the market. While challenges in talent and skill development, research and technology adoption, and limited financing options are core to players catering to the consumption demand for jewelry, an increasing investment demand with limited supply infrastructure affects the investment side of the market. High import dependence and regulatory curbs impact both consumption and investment demand of the market.

High import dependence and limited recycling. There is very little domestic production of gold, which has resulted in a very high dependence on imports. This makes the industry susceptible to any regulations that constrain gold supply. In addition, the supply of recycled gold from the domestic market is limited.

¹ Calculated as difference between output and raw material consumed by the industry
Overregulated consumption industry and underdeveloped investment industry. In terms of regulatory policy, there is a lack of differentiation between investment demand and consumption demand. As a result, while imports have surged primarily to feed investment demand, regulations have also constrained consumption demand. There is no clear policy on the investment demand for gold.

Large investment demand and associated supply infrastructure. There is substantial investment demand in both jewelry and bars and coins form because of the great attractiveness of gold as an investment option, the limitations of alternative investment options, and the inadequacies of financial products backed by gold. However, bars and coins in particular have limited value addition and thus make a limited contribution to industry growth. Further, the investment demand adds to the import burden, leading to regulatory actions that impact the industry. There are a number of jewelers that cater primarily to investment demand, especially in rural and semi-urban areas.

Perception of opaqueness. The industry is fragmented, with dominance by the micro, small, and medium-size enterprises (MSME) sector. Over the past decade, there has been a considerable increase in the share of the organized sector and corresponding transparency. However, there is still a perception of opaqueness, particularly due to the fragmented nature of the industry. As we have seen over the past five years with the share of national and regional chains increasing from 3 to 5 percent and 7 to 17 percent respectively, this perception is improving. We expect this perception to further improve in the long run.

Limited financing options. The industry suffers from a lack of financing options. Further, the unavailability of gold (metal) loans has increased the cost of financing for domestic jewelers. Traditional financing is costly because of high input costs.

Risk of talent shortage. The industry’s on-the-job training model leads to longer training time and creates gaps in availability of industry best practices and standardization, mainly for the fragmented part of the industry. This is coupled with gaps in infrastructure, lower demand for institution-trained workers in the fragmented part of the industry, and low attractiveness of the industry to the younger generation of employees.

Limited research and technology adoption. Innovation is crucial for success in the export market and for growing the domestic segment. This requires the use of modern design and the latest technology. While the industry is adept at traditional designs, there is a lack of design-led innovations. Adding to this are sub-scale facilities that limit the use of modern technology.

Given these challenges, it is crucial to drive a comprehensive transformation of the industry to ensure sustainable growth and greater contribution to the Indian economy through higher exports and value addition. While several initiatives would benefit the industry, six broad themes can form the basis of action for the industry, government, the Reserve Bank of India (RBI), and other stakeholders. Stakeholders can draw lessons from Turkey and Dubai, where the gems and jewelry market has witnessed significant transformation.

Monetize existing investment through recycling. Focus on a higher recycling of gold available within the country through gold deposit schemes and other similar schemes and allow banks to buy domestic gold.

Liberalize regulations affecting the consumption value chain. Enable consumption demand by reducing restrictions on gold supply, focusing on quality control (hallmarking), and introducing easy financing options.
Develop and regulate the investment value chain. Develop the market to cater to investment demand for gold by facilitating gold-based investment products. Also, effectively meet investment demand by increasing access to banking systems and increasing financial education and confidence, particularly in non-urban areas. Ensure availability of gold coins and bars (primarily through banking systems) and develop other gold-based financing options.

Offer easy financing options. Ensure better credit ratings, and develop easy financing options such as asset-based lending. Also, reintroduce gold (metal) loans for the domestic jewelers.

Improve the perception of industry opaqueness. Ensure that the industry image is enhanced through increased registration of enterprises and higher discipline in financial reporting and tax payments. This is especially important given the fragmented nature of the industry.

Develop infrastructure and skills to cater to specific needs of consumption demand. Facilitate the adoption of new technology and designs—particularly by the fragmented part of the industry—through the creation of shared facilities, and develop an adequate talent pool through modern skill development initiatives.

These steps can help transform the industry and positively impact key industry metrics by 2018:

- **Lower imports** of gold to between INR 620,000 and 630,000 crores from a base case of INR 660,000 to 680,000 crores, with greater recycling and wider use of alternative investment options, reducing the import burden to balance the increase in import requirements to cater to around INR 90,000 crores of additional exports.

- **Higher recycling** of 40 to 45 percent of domestic demand compared to 20 percent base case.

- **An additional employment opportunity** of 500,000 to one million compared to the scenario that results if import restrictions and other challenges continue.

- **Higher consumption demand for gold jewelry** of INR 390,000 to 410,000 crores from a base case of INR 370,000 to 390,000 crores, thanks to increased value addition by the industry, leading to a 4 to 6 percent increase in consumption demand.

- **Reduced investment demand** of INR 110,000 to 120,000 crores for jewelry and INR 135,000 to 145,000 crores for bars and coins, thanks to the wider presence of and greater access to alternative financial options, resulting in a decrease in imports of 8 to 9 percent.

- **Higher gold exports** of INR 240,000 to 250,000 crores from base case exports of INR 150,000 to 160,000 crores, a result of a more competitive industry with better designs, quality, and manufacturing, making exports equal to 40 to 45 percent of domestic jewelry demand and 40 percent of imports post-transformation.

- **Greater value addition** in jewelry manufacture and retail of around INR 165,000 crores from a base case of around INR 140,000 crores, led by better infrastructure and enhanced exports.

- **Higher share of organized retail** of 30 to 35 percent compared to a base case of 25 percent thanks to initiatives undertaken to enhance transparency and improve infrastructure with a higher adoption of modern technology.

**Study context and background**

In India, gems and jewelry inspire passion unlike any other object of desire. Everyone has been moved by the beauty of gems and jewelry at some point—be it a glittering wedding
necklace, exquisite earrings, or a solitaire diamond. Gems and jewelry have a rich history and cultural heritage that, coupled with an enduring attraction to gold, has given rise to a large and thriving industry.

The gems and jewelry industry has a far-reaching impact in the Indian economy. It is one of the highest contributors to export (INR 227,000 crores in 2012–2013), provides employment to 2.5 million directly, and contributed INR 99,000 crores as value addition to the economy.\(^2\)

However, one of the key inputs for the industry—gold—has been in focus because of almost complete dependence on imports for supply and an expanding CAD. As a result, regulatory action has been taken to limit gold imports. The CAD for India has increased to 4.8 percent of GDP in 2012–2013 from a positive current account balance of 1.2 percent of GDP in 2002–2003. It should be noted here that imports have grown by a CAGR of 25 percent in this period. Exports, however, have not kept pace, with a CAGR of 20 percent between 2002 and 2003 and 2012 and 2013. Resolving the CAD issue therefore requires a study of both export and import measures.

Gold has the second-highest share in imports, increasing from 6 percent between 2002 and 2003 to 11 percent between 2012 and 2013. The increase in gold imports is largely driven by the spectacular growth in gold prices, with prices moving from INR 5332 per 10 gm between 2002 and 2003 to INR 30,164 per 10 gm between 2012 and 2013 (CAGR of 19 percent).\(^3\) In comparison, import of gold in volume has only increased by a CAGR of 5 percent.

The other two large segments comprise crude and other petroleum products and machinery, and other equipment. These are considered more essential to the economy than gold and, as a result, the regulations to curtail imports have focused on gold. Consequently, there have been changes in regulations that aim to curb gold imports. Because gold is the most important raw material, any uncertainty in its supply has a crippling impact on the entire industry.

In these turbulent times, FICCI and A.T. Kearney have come together to develop a comprehensive view of the industry (see sidebar: About the Study on page 6). The focus of this report is on gold jewelry manufacturing and retail, which accounts for around 50 percent of value addition in the gems and jewelry industry (see figure 1).

Figure 1

**The gems and jewelry industry adds value across the value chain**

(\(\text{INR 000 crores, 2012–2013}\))

![Diagram of value added across the value chain]

1. Others includes silver, platinum, and gemstones.
2. Calculated as the difference between output value and input value of raw materials
3. RBI data, price at Mumbai

Sources: World Gold Council, Gold Fields Mineral Services, Ministry of Commerce, Reserve Bank of India, primary sources; A.T. Kearney analysis
The following assessment was conducted to address the major questions identified for the industry:

**Demand assessment.** The focus of this report is on the domestic market. The domestic retail jewelry market size has been estimated by aggregation of individual elements: gold, diamond, silver, platinum, and gemstones. The demand assessment highlights a previously unexplored facet of the industry—the industry is clearly segmented into two parts: consumption and investment demand. The forecast of market size is based on regression analysis of historical demand on all potential factors to identify the demand drivers. This has been done separately for consumption and investment demand (see figure).

**Value addition.** This has been defined as the difference between output value and input value of raw materials. The study has captured value added by the industry catering to both domestic and export markets. A thorough analysis of the value chain has been undertaken. Value addition has been estimated for each element of the value chain, including trading, refining, cutting and polishing of diamonds and colored gemstones, jewelry manufacturing, and retailing to estimate total value added by the industry.

**Exports.** The various components of the market, including gold, silver, platinum, and diamond and gemstone jewelry, have been aggregated to estimate the export contribution of the jewelry industry. Future projection of exports has been based on the assumption of a stable domestic supply industry.

**Challenges and solution themes.** The industry value chain was studied in detail—in the context of the widening CAD of the country—with respect to regulations, industry structure, and key players. The findings were used to identify key challenges faced by the industry. Solution themes were arrived at after a thorough root-cause analysis; study of best practices from other comparable countries, and industries in India with similar characteristics; and discussions with industry and A.T. Kearney experts.

As in any industry study, multiple data sources have been used to assess the gems and jewelry industry. We have used data from the Department of Commerce, Directorate General of Commercial Intelligence and Statistics (DGCI&S), RBI, World Bank, Gold Surveys, and World Gold Council. This has been supplemented by primary information collected through interviews across stakeholders, including leading jewelers, banks, government, and industry experts.

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**Figure**

**Market size forecast based on a look at consumption and investment demand**

*Regression between consumption demand and GDP per capita*

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption demand (INR '000 crores)</th>
<th>GDP per capita</th>
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<tbody>
<tr>
<td>2005</td>
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</tr>
<tr>
<td>2012</td>
<td>180</td>
<td>160</td>
</tr>
</tbody>
</table>

Adjusted R square: **96.3%**  
T-stat: **13.6**

*Regression between investment demand and GDP per capita*

<table>
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<tr>
<th>Year</th>
<th>Investment demand (INR '000 crores)</th>
<th>GDP per capita</th>
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<td>2005</td>
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<td>2009</td>
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<td>2010</td>
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<td>120</td>
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<tr>
<td>2011</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>2012</td>
<td>160</td>
<td>160</td>
</tr>
</tbody>
</table>

Adjusted R square: **93.7%**  
T-stat: **10.3**

Notes: GDP per capita is at current prices. Consumption demand is for jewelry only. Investment demand includes jewelry, gold bars, and coins.
Sources: Reserve Bank of India, World Gold Council, Gold Fields Mineral Services, A.T. Kearney analysis
This report aims to highlight the differences in investment and consumption demand in the market as there are specific challenges and solution themes for each area. Our aim is to answer the following questions:

- What is the size and structure of the industry? What are the demand segments and fundamental drivers for gems and jewelry demand (with the focus on gold)?
- What is the contribution of the gems and jewelry industry to the Indian economy?
- What are the various challenges that can impact the industry’s growth?
- What are the key solution themes and roles of various stakeholders to ensure sustainable growth for the industry?

The assessments and recommendations in this report are based on the collation and analysis of an extensive fact base, international comparisons and benchmarks, and discussions with industry leaders and other stakeholders.

These findings are presented in the following pages:

**Value Chain in India.** This provides an overview of the value chain, highlighting value chains for investment and consumption demand.

**Industry Size and Importance to the Economy.** Here, we assess industry demand drivers and growth outlook across consumption and investment demand, and lay out the importance of the industry to the economy.

**Challenges Faced by the Industry.** We look at challenges across the value chain to identify specific issues faced across segments (consumption and investment demand). We highlight how challenges across the consumption and investment sides are distinct and need to be managed differently. The challenges include areas that are central to the history and structure of the industry and recent changes that have further affected the gems and jewelry industry.

**Imperatives for Sustainable Growth.** We identify key solution themes for the industry that can ensure sustainable growth for the consumption demand. We also identify initiatives to manage the investment demand to reduce the impact on CAD, provide alternative investment options, and increase transparency.

**The Way Forward.** To conclude, we bring all of our learning together and present a way forward for key stakeholders—industry, government, and RBI. This sets the action agenda for these stakeholders to ensure sustainable growth for the industry through successful implementation of various initiatives.

### Value Chain in India

Jewelry has a special significance in Indian culture. Backed by intricate Karigari and designs developed over the ages, it has been an integral part of Indian lifestyle and culture for centuries. Today, India has a large domestic jewelry market. It is also the largest consumer of gold jewelry in the world, with 29 percent share of the total global demand for gold as jewelry.\(^4\) Apart from being a large jewelry market, India also has a robust jewelry manufacturing industry.

\(^4\) World Gold Council data for 2012
The value chain for gold includes mining, imports, refining, trading, manufacturing, retailing, and the financial industry for gold-based products. The gold value chain has a distinct characteristic: it caters to both consumption-led demand and investment-led demand. As a result, there are two value chains with distinct drivers and needs; however, there is extensive intermingling of the players across the two value chains. The industry value chain is comprised of sourcing (mining and imports), refining, trading, manufacturing, and retailing (see figure 2). While some of the players cater primarily to consumption demand for jewelry and others cater primarily to investment demand, a host of players caters to both consumption and investment demand. For example, banks selling gold coins would serve the investment demand for gold, a branded diamond jewelry retailer would primarily serve the consumption demand, and a local jeweler would play a dual role by also serving as a money lender.

The supply landscape of the Indian gems and jewelry industry is different from its counterpart in the developed world. This difference is highlighted in the fragmented supply base, variation across regional manufacturing hubs, and labor-intensive but highly productive industry.

Gold sourcing: largely dependent on imports

Mining of gold in India is very limited and is restricted to the Hutti, Uti, and Hira-Buddini mines (Hutti Gold Mines Limited) in Karnataka and the Kundkocha mine (Manmohan Mineral Industries...
Primarily because of India’s limited gold reserves, the yearly production of gold was around two tons in 2011–2012, which equates to just 0.2 percent of the amount of gold imported. As a result, there is a high dependence on imports. Gold is imported by nominated banks (36 banks are authorized), nominated agencies or bullion banks, and select star and premier trading houses (around eight organizations). Most gold is imported through a handful of bodies, including bullion banks and government trading agencies, and is largely organized and consolidated among fewer players. Also, the imported gold is usually sold in bulk to manufacturers and dealers. Gold is imported primarily in unwrought or semi-manufactured form (INR 292,000 crores in 2012–2013). However, some gold is imported as jewelry. (Jewelry import was INR 27,000 crores between 2012 and 2013.)

India’s gold value chain has a distinct characteristic: it caters to consumption-led demand and investment-led demand.

**Refining: existing capacity but low utilization**

Refineries in India operate mainly on imported gold dore bars and scrap gold collected from the domestic market, and thus play a crucial role in the recycling of gold in the country. The market for refining is small, however. Currently, it is estimated that refineries are operating at 25 percent of total installed capacity because of a shortage of used jewelry. The market consists of a few larger units and other smaller units, mostly in the private sector, and a few government refineries. In addition, because most of the private refineries are not certified by the London Bullion Market Association (LBMA), gold bars produced by them cannot be used for exchange traded funds (ETFs) or bought back by banks. As a result, these refineries are not part of the financial system.

**Trading: developed industry for physical trading of gold**

Trading of physical gold is done by dealers and gold jewelry manufacturers and retailers. Physical gold is usually purchased in bulk from importing agencies and then resold to smaller jewelers across the country. This trading caters to both consumption and investment demand in the market.

Commodity-based trading of gold is done through exchanges such as the Multi Commodity Exchange of India Limited (MCX), National Commodity and Derivatives Exchange Limited (NCDEX), National Multi-Commodity Exchange of India Limited (NMCE), and National Spot Exchange Limited (NSE). Several organizations engage in trading activities, including bullion dealers and jewelry manufacturers. Most of these transactions are done by industry players and not by retail investors. For example, jewelry retailers may hedge position in MCX while buying jewelry directly from vendors.

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5 Indian Minerals Yearbook 2012, Indian Bureau of Mines
6 RBI data, January 2013, authorization up to December 31, 2013; Federation of Indian Export Organizations data
7 Including jewelry of pure gold, diamond jewelry, jewelry set with pearls and gemstones
8 Business Standard news report, 9 October 2013
Manufacturing: largely manual manufacturing spread across the country

India has a thriving manufacturing base for gems and jewelry. Globally, India is well-known as an important diamond and jewelry manufacturing hub and is an important source of supply around the world. Within the country, there is regional variation in customer preference that has resulted in the development of specific jewelry clusters, specializing in a particular kind of gold and diamond jewelry design preferred by customers in the region. Jewelry manufacturing is spread across the country, with hubs in all regions catering to local tastes and preferences (see figure 3).

Figure 3
India’s jewelry manufacturing hubs

The past few years have seen the emergence of large organized jewelry manufacturers that serve the rapidly organizing jewelry retail industry. The larger manufacturers of jewelry have modern, well-organized manufacturing units; a higher focus on design, quality, standardization, and efficiency (minimal gold loss); and primarily cater to consumption demand for jewelry. These players operate primarily from the major jewelry manufacturing hubs in the country. However, the rest of the jewelry manufacturing industry is fairly fragmented, with a large share of the output produced by small manufacturers. The output from this fragmented segment has comparatively lower value addition and hence caters to both consumption and investment demand in the market. The gold coins are manufactured either directly by refineries or by jewelers or coin manufacturers and cater to investment demand.

Given the fragmented nature of the Indian gems and jewelry industry and the relatively cheap workforce, there is limited investment in machinery and automation in jewelry manufacturing.
Around 70 percent of the jewelry processing in India is carried out manually. This leads to an increased demand for highly skilled labor with unique skill sets. However, with changing customer demand, there is a need for higher automation and innovation, necessitating additional skill requirements in the industry. While there has been a shift toward higher automation, the rate of change will be dependent on the cumulative efforts made by various stakeholders.

In terms of the technology used for jewelry making, three types predominate: handmade, casted, and machine-made. In addition, some players are adopting new technologies such as fusion, electroforming, mesh, and Italian. These have been used for differentiation with respect to customer-facing parameters such as quality, finish, design complexity, and weight.

**Retail industry: fragmented with good productivity**

The Indian gems and jewelry industry developed as an unorganized sector, but the past decade has witnessed the emergence of organized players, with government liberalizing gold imports into the country. However, the industry is still fragmented, with local and independent stores constituting roughly 80 percent of the overall market, compared to a much higher proportion of share from organized players (about 50 percent) in similar markets, such as Turkey (see figure 4). The trusted local family jeweler, with whom customers have relationships over generations, is still the largest channel for jewelry sales. In rural areas, many local jewelers also play the role of financiers or money lender, lending money against gold.

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**Figure 4**

India’s gems and jewelry industry is fragmented

**Comparison of market landscape**

<table>
<thead>
<tr>
<th></th>
<th>India (2013)</th>
<th>Turkey (2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National chains</td>
<td>5%</td>
<td>35%</td>
</tr>
<tr>
<td>Chain stores</td>
<td>17%</td>
<td>4%</td>
</tr>
<tr>
<td>Regional chains</td>
<td>78%</td>
<td>10%</td>
</tr>
<tr>
<td>Local and independent stores</td>
<td>78%</td>
<td>50%</td>
</tr>
</tbody>
</table>

*Note: Percentages may not resolve due to rounding.*

*Sources: DTC (direct tax code) reports, Datamonitor, industry interviews; A.T. Kearney analysis

The growth of national chains is inhibited by the strong presence of local and regional players and variances in consumer preferences in design, quality, and material across different regions. Despite that, there has been a sharp increase in the share of organized retail, which was almost negligible 15 years ago. Along with a few large national players, regional players have also expanded beyond their city or catchment and have become regional chains (see figure 5 on page 12). From 2008 to 2013, the share of regional chains increased significantly from 7 to 17 percent, while the share of national chains grew from 3 to 5 percent.

*Gems and Jewelry Market in India, Netscribes, May 2010*
While the share of organized players in the gems and jewelry industry has been increasing, a slowdown is a risk due to regulatory restrictions on gold imports and price differential between official and unofficial supply of gold in the market.

Value proposition for jewelers
While there are many types of retailers, they differ from each other in terms of the value proposition to consumers (see figure 6 on page 13). The key purchase criteria for a jewelry consumer are trust, range, price, design, quality, brand image, location, and services. Players focus on a few of these to differentiate themselves as explained below:

- **Designer jewelers.** Very high focus on design; cater to high-end market, with differentiation on design and brand image
- **Top-end family jewelers.** High concentration on services and design
- **Leading family jewelers.** Primary focal point is heritage-based trust and services, but provide good range; price competitive
- **International brands.** Modest presence in India; target trendy customers by playing on brand name and design
- **Regional jewelers.** Frequently form chains in a particular region, differentiating on trust and services and providing personalized services for customers
- **National chains.** Pan-India presence; promote trust and brand image
- **Local and independent jewelers.** Price-centered; target low-end customers, with little attention to brand image or design
- **Diamond jewelry brands.** Highlight brands and design; pursue multiple locations through modern retail and department stores
Figure 6
How jewelry retailers differentiate

Designer jeweler

Top-end family jeweler

Leading family jeweler

International brands

Regional jeweler

National chain

Local and independent store

Diamond brands

Source: A.T. Kearney analysis
Performance of Indian retailers

High consumer demand for gold has enabled Indian jewelry retailers to realize higher store productivity and faster inventory turns, leading to a higher return on capital employed compared to retailers in other developed markets (see figure 7). This has helped the industry grow and has given an incentive to new players to enter and to existing players to expand their operations, particularly in jewelry retail. However, gross margins are lower compared to developed markets because the brand premium consumers are willing to pay is still very low. The system of selling jewelry on a component-wise costing and consumers’ unwillingness to pay for design also contributes to keeping gross margins low.

Figure 7

India’s jewelry stores are highly productive

Average monthly store sales

(INR per square foot 2012–2013)

Bars and coins retailing

Another aspect of gold retailing caters purely to the investment demand for gold and includes retail sale of bars and coins. Bars and coins are available for retail sale through jewelers, select bullion dealers, and banks.

While most jewelers are involved in the retail sale of gold coins mainly to increase traffic in stores, some banks sell gold coins in select branches throughout the country. There is, however, limited availability of gold coins through banks in rural areas. Also, banks do not buy back gold coins they have sold.

Financial industry for gold-based products

The investment demand for gold is also fulfilled through a variety of financial products. Retail investors may take positions in gold through financial instruments such as gold ETFs, e-gold, and gold-based mutual funds.

Gold ETFs

Exchange-traded funds backed by gold are provided by about 14 financial institutions in India and are traded on the NSEL and the Bombay Stock Exchange. They provide returns that closely match that of gold, but need to be backed by physical gold up to 90 to 95 percent of the value of the gold ETF. It is also possible to back these up to 20 percent with the gold deposit schemes.
of banks. However, retail investors need not take physical possession of the gold during the transaction. The instrument works on a platform similar to equity trading, with investors needing equity demat accounts to have positions.\(^{10}\)

There is a comparatively larger market for gold ETFs globally, with combined holdings of 2,691 tons at the end of 2012.\(^{11}\) However, the market for gold ETFs in India is smaller, with gold holdings of around 40 tons (around INR 10,660 crores of total assets under management).\(^{12}\) Of this, the top four funds—Goldman Sachs, Reliance Mutual Fund, SBI Mutual Fund, and Kotak Mutual Fund—have around 75 percent share (see figure 8). Having launched in 2007, gold ETFs are relatively new, with a significant rise in volumes only in the past two years. However, recent pressures on CAD have led to instances of market regulator the Securities and Exchange Board of India turning down applications for new gold ETFs.\(^{13}\)

Figure 8

Four funds have three-quarters of India’s gold holdings

Assets under management for gold ETFs in India (September 2013)

<table>
<thead>
<tr>
<th>Fund</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goldman Sachs</td>
<td>27%</td>
</tr>
<tr>
<td>Reliance Mutual Fund</td>
<td>10%</td>
</tr>
<tr>
<td>SBI Mutual Fund</td>
<td>8%</td>
</tr>
<tr>
<td>Kotak Mutual Fund</td>
<td>6%</td>
</tr>
<tr>
<td>HDFC Mutual Fund</td>
<td>4%</td>
</tr>
<tr>
<td>UTI Mutual Fund</td>
<td>3%</td>
</tr>
<tr>
<td>Axis Mutual Fund</td>
<td>1%</td>
</tr>
<tr>
<td>Others(^1)</td>
<td>13%</td>
</tr>
<tr>
<td>Total assets under management</td>
<td>INR 10,664 crores</td>
</tr>
</tbody>
</table>

\(^1\)Others includes ICICI Prudential Mutual Fund, IDBI Mutual Fund, Canara Robeco Mutual Fund, Birla Sun Life Mutual Fund, Religare Mutual Fund, Motiwal Oswal Mutual Fund, and Quantum Mutual Fund.

Note: ETF is exchange-traded fund.

Sources: National Spot Exchange Limited, Bombay Stock Exchange, MoneyControl; A.T. Kearney analysis

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**e-gold**

These are gold-backed instruments traded on the NSEL. They operate like a commodity in the spot market, with nominal cost of trading compared to that of gold ETFs, where net asset value (NAV) is calculated after incorporating fees for the asset management company and other charges. The investor can opt for delivery of physical gold. Also, the returns track gold prices closely since they are backed completely by physical gold.

\(^{10}\)Demat (dematerialized) refers to the switch from physical certificates to electronic book keeping.

\(^{11}\)Gold Survey 2013, Gold Fields Mineral Services

\(^{12}\)As on September 2013

\(^{13}\)The Economic Times, September 2013
Gold funds (mutual funds)
These are usually fund of fund schemes backed by gold ETFs. They operate along similar lines to mutual funds and do not require a demat account. Being fund of funds, they incur recurring expenses of the underlying scheme (gold ETFs). Gold funds also offer systematic investment plans (SIPs) that allow customers to make small investments.

Overall, the market for financial products is comparatively new in India, with low off-take and limited product options. Recent pressure on CAD also has led to initiatives impacting the industry.

Industry Size and Importance to the Economy
We have completed a comprehensive assessment of industry size and importance to the Indian economy across three dimensions:

- **Gems and jewelry industry size.** Current demand and its key characteristics, including consumption and investment behavior in India and regional preferences
- **Importance of the gems and jewelry industry to the Indian economy.** Contributions of the gems and jewelry industry to the Indian economy, specifically in employment generation, exports, and value addition
- **Growth outlook and demand drivers.** Growth outlook for the domestic jewelry market and drivers for demand

**Gems and jewelry industry size**
The gems and jewelry industry in India caters to both domestic and export demand (see figure 9). The industry has three key markets:

**Figure 9**
*India’s gems and jewelry industry serves domestic and export markets*

**Components of India’s gems and jewelry industry**
(INR ‘000 crores, 2012–2013)

<table>
<thead>
<tr>
<th>Components</th>
<th>Domestic jewelry market</th>
<th>Diamond export</th>
<th>Jewelry export</th>
<th>Total gems and jewelry</th>
<th>Domestic bars and coins</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes gold corresponding to 29% of global gold demand for jewelry</td>
<td>251</td>
<td>126</td>
<td>73</td>
<td>451</td>
<td>103</td>
<td>554</td>
</tr>
<tr>
<td>Includes gold bars and coins corresponding to 25% of total gold bars and coins demand globally</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1Includes rough diamonds and cut and polished diamonds
Note: Numbers may not resolve due to rounding.
Sources: Ministry of Commerce, World Gold Council, A.T. Kearney analysis
• Domestic gems and jewelry market of around INR 251,000 crores in 2012–2013
• Export market for cut and polished diamonds and other gemstones, with exports of INR 126,000 crores in 2012–2013
• Jewelry export market, with exports of INR 73,000 crores in 2012–2013

In addition, there is a large non-jewelry domestic market of INR 103,000 crores, which is primarily gold bars and coins. Over the years, the market for gold bars and coins has grown in size from 134 tons in 2005 to 312 tons in 2012. Currently, demand for gold bars and coins in India accounts for 25 percent of world demand (see figure 10).\(^\text{14}\)

**Figure 10**

**India accounts for 25 percent of the world’s gold demand**

**Gold consumption**

(tons, 2012)

<table>
<thead>
<tr>
<th></th>
<th>1,908</th>
<th>1,256</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jewelry</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td>Bars and coins</td>
<td>71%</td>
<td>75%</td>
</tr>
</tbody>
</table>

India

Rest of world

Sources: World Gold Council; A.T. Kearney analysis

**Figure 11**

**The domestic market is the largest segment of India’s gems and jewelry industry**

**India’s domestic market for gems and jewelry and gold bars and coins**

(INR ‘000 crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold: bars and coins</td>
<td>64</td>
<td>74</td>
<td>109</td>
<td>36</td>
<td>194</td>
</tr>
<tr>
<td>Others: jewelry</td>
<td>46</td>
<td>56</td>
<td>77</td>
<td>143</td>
<td></td>
</tr>
<tr>
<td>Silver: jewelry</td>
<td>2</td>
<td>10</td>
<td>11</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Diamonds: jewelry</td>
<td>11</td>
<td>2</td>
<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gold: jewelry</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

(CAGR 2005–2012)

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold: bars and coins</td>
<td>43%</td>
<td>23%</td>
<td>24%</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>Others: jewelry</td>
<td>43%</td>
<td>23%</td>
<td>24%</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>Silver: jewelry</td>
<td>43%</td>
<td>23%</td>
<td>24%</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>Diamonds: jewelry</td>
<td>43%</td>
<td>23%</td>
<td>24%</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>Gold: jewelry</td>
<td>43%</td>
<td>23%</td>
<td>24%</td>
<td>22%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Note: Numbers may not resolve due to rounding.
Sources: World Gold Council; Gold Fields Mineral Services, industry interviews; A.T. Kearney analysis

\(^\text{14}\) World Gold Council data for 2012
The demand assessment for gems and jewelry in India needs to distinguish the investment and consumption demand.

The domestic gems and jewelry market is the largest segment of the Indian industry, accounting for 56 percent of gems and jewelry output of INR 451,000 crores between 2012 and 2013. It is comprised of gold, silver, and platinum jewelry, either plain or studded with diamonds or other gemstones, and is driven by gold and diamonds, which account for 94 percent of total market value (see figure 11 on page 17).

Consumption behavior in domestic market: significant investment demand
Gold is a symbol of prosperity and appeals to both younger and older generations across India’s social strata. It has a unique position in the minds of Indians and is considered a source of social security for a large section of the society. Indians also attach a high emotional value to gold. It is often considered a social requirement for ceremonies and weddings and bestows a sense of pride and social status to its owners.

The demand assessment for gems and jewelry in India needs to distinguish the investment and consumption demand because of the importance of gold as an investment asset (see figure 12).

Figure 12
Gold is an important investment asset

Domestic investment and consumption market
(INR ’000 crores)

Sources: World Gold Council, Gold Fields Mineral Services, industry interviews; A.T. Kearney analysis

Includes domestic jewelry market, jewelry exports, and diamond exports
Consumption demand
Consumption demand accounts for around 55 percent of total market demand. This demand is led by the need for gold and non-gold jewelry that caters to specific wear occasions and is essentially similar to that of a luxury product. The jewelry for consumption demand typically requires high value addition and intricate design-led innovations. In terms of occasions for wearing jewelry, the consumption demand caters to the following (see figure 13):

- **Fashion wear.** This segment has 8 to 10 percent share but has gained importance with the increase in demand for diamond jewelry. Growth is being driven by rising income levels and the adoption and promotion of Western concepts such as solitaire engagement rings.

- **Diamond-studded gold jewelry, non-gold jewelry, and pure gold jewelry for regular wear.** This segment has around 25 to 30 percent share of the market and includes comparatively lower-value jewelry and gem-based rings.

- **Non-gold jewelry and some diamond-studded and pure gold jewelry in the ceremonial and bridal wear segment.** This is the largest segment, with a 60 to 65 percent share.

Investment demand
Investment demand for jewelry and bars and coins accounts for about 45 percent of the total market demand. The high investment demand in India is driven by five factors:

---

**Figure 13**
Jewelry demand serves a variety of occasions

**Segmentation based on content and wear occasion**

(2012)

<table>
<thead>
<tr>
<th>Occasions</th>
<th>Ceremonial and bridal wear</th>
<th>Regular or daily wear</th>
<th>Fashion wear</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>60%-65%</strong></td>
<td>80%-85%</td>
<td>10%-15%</td>
<td>4%-7%</td>
</tr>
<tr>
<td><strong>Gold jewelry</strong></td>
<td>• Predominantly 22 carat gold</td>
<td>• Mostly 22 carat gold</td>
<td>• Predominantly 18 carat gold or exquisite designs in 22 carat</td>
</tr>
<tr>
<td></td>
<td>• Above 50 grams per piece</td>
<td>• 1-50 grams per piece</td>
<td>• 1-20 grams per piece</td>
</tr>
<tr>
<td></td>
<td>• Sets, necklace, bangles, waistbands</td>
<td>• Chains, necklace, bangles, pendants, earrings</td>
<td>• Chains, pendants, earrings, bracelets</td>
</tr>
<tr>
<td><strong>Diamond-studded jewelry</strong></td>
<td>80%</td>
<td>• Fully studded or solitaires</td>
<td>• Average price: Rs. 30,000</td>
</tr>
<tr>
<td></td>
<td>10%-15%</td>
<td>• Above Rs.1 lakh per piece</td>
<td>• Smaller-size diamonds</td>
</tr>
<tr>
<td></td>
<td>4%-7%</td>
<td>• Bangles, pendants, necklace sets</td>
<td>• Rings, pendants, earrings, nose pins</td>
</tr>
<tr>
<td><strong>Other categories</strong></td>
<td>80%-85%</td>
<td>10%-15%</td>
<td>4%-7%</td>
</tr>
<tr>
<td></td>
<td>• Pearls and silver jewelry</td>
<td>• Gems and gems jewelry (for example, rings)</td>
<td>• Platinum, synthetic diamond, or silver with design being a value add</td>
</tr>
<tr>
<td></td>
<td>• Platinum jewelry</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis
Lack of alternative investment or savings options for a large section of society. Tier 2 towns and rural parts of the country that account for 60 to 65 percent of gold jewelry demand have limited alternative options for investments. Specifically, they have limited access to bank accounts, which restricts investments in financial instruments. India has low financial access compared to countries such as the United Arab Emirates (UAE), Turkey, the United States, and the United Kingdom, with only 747 bank accounts per 1,000 adults (see figure 14). The actual number of unique account holders is expected to be much lower in India because of the number of people with multiple accounts, driven by low availability of bank branches in the rural sector. For example, only 37 percent of scheduled commercial bank branches are in rural areas. For rural populations, the post-office network, with its wide footprint in rural areas, is the primary institutional option for savings and has emerged as one of the preferred options for financial saving. However, post offices have not been able to capture the entire rural investments market due to the lack of lending and credit facilities. According to RBI, 42 percent of rural credit in 2002 was given out by non-institutional agencies, including landlords, money lenders, and traders. As a result, jewelers have emerged as the financial alternative, providing investment options through gold and also playing the role of money lender.

Perceived capacity to hedge against inflation. Gold is traditionally believed to be an effective hedge against inflation. During times of rapid inflation, there is effective loss of value in assets such as cash, but gold is perceived to be an asset in which growth in price offsets inflationary

---

**Figure 14**

**Jewelry is a good investment option when access to banks is limited**

**Domestic consumer demand for gold (jewelry only)**

(\% of nominal GDP, 2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Demand (% of nominal GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>1.64%</td>
</tr>
<tr>
<td>UAE</td>
<td>0.68%</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.45%</td>
</tr>
<tr>
<td>UK</td>
<td>0.05%</td>
</tr>
<tr>
<td>U.S.</td>
<td>0.04%</td>
</tr>
</tbody>
</table>

| Bank accounts per thousand adults (2010) | 747 | 1,750 | 1,661 | 2,923 | 2,022 |

Note: GDP at current prices

Sources: World Gold Council data for gold demand as jewelry, World Bank data for nominal GDP, CGAP and the World Bank Group for banking penetration; A.T. Kearney analysis

16 Primary interviews with industry experts
17 Consultative Group to Assist the Poor and the World Bank Group, 2010
18 RBI
19 Persistence of Informal Credit in Rural India, April 2013, RBI working paper
pressures. From 2005 to 2012, gold prices grew at a rate higher than the consumer price index (see figure 15).

**Ability to invest in gold in small denominations.** For a large share of the population, gold is perceived to be an attractive non-financial investment option when compared to the other important category—land and real estate—because of the flexibility of gold, which allows investments in small amounts. There is a wider reach of jewelers across India, allowing consumers the ability to invest in extremely small volumes (as low as one or two grams). In tier 1 towns, there are alternative options for investment, but gold remains attractive because it provides flexibility to invest in low volumes. This is enhanced by the fact that gold acts as a compact store of value, which leads to relative ease of storage.

**High returns on gold.** Gold has outperformed several other asset classes, including Nifty, term deposits, and savings deposits, with significantly higher returns over the past 12 years (see figure 16).

**Ease of investing unaccounted money in gold.** Unlike other financial investment options, many retail transactions in gold can still be done in cash without any documentation. This provides an easy route for investing unaccounted (black) money. There are varying estimates of the level of black money in India, ranging from around 20 percent of GDP (2006 estimate) to 30 percent of GDP.

---

**Figure 15**

**Gold prices can withstand the pressures of inflation**

**Gold price growth (year over year) and inflation**

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation (%)</th>
<th>Gold price (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005–2006</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>2007–2008</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>2009–2010</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td>2011–2012</td>
<td>8</td>
<td>34</td>
</tr>
</tbody>
</table>

*Note: Gold price based on Mumbai price released by the Reserve Bank of India; inflation calculated on Consumer Price Index*

*Sources: Reserve Bank of India database; A.T. Kearney analysis*

**Figure 16**

**Gold has outperformed other asset classes**

**Annual return on domestic assets**

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>(2001–2002 to 2012–2013)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>House price index</td>
<td>-19%</td>
</tr>
<tr>
<td>Gold</td>
<td>-17%</td>
</tr>
<tr>
<td>Nifty</td>
<td>-11%</td>
</tr>
<tr>
<td>Term deposit above five years</td>
<td>-9%</td>
</tr>
<tr>
<td>Savings deposit</td>
<td>-4%</td>
</tr>
</tbody>
</table>

*House price index value for 2002–2007 city-wise annual year on year growth in Delhi, Mumbai, Bangalore, Kolkata, and Bhopal

*Sources: Reserve Bank of India, National Spot Exchange Limited; A.T. Kearney analysis*
GDP (INR 25 lakh crores in 2013). The government, however, has not released its own estimate of black money in India.

The focus on gold as an investment is reflected in the high demand for bars and coins and low-value-added jewelry. Overall, the purchase of gold in this capacity is inherently similar to investment or savings and not to consumption-based expenditure.

**High investment demand for jewelry: a unique Indian feature**
The unique nature of Indian demand highlights the insatiable demand for gold jewelry in India that has been largely immune to rising prices. Even with gold prices rising about 3.8 times between 2005 and 2012, demand for gold jewelry in terms of volume has remained steady and in terms of value has grown by 4.2 times in nominal terms, despite higher import duties.

In contrast, gold jewelry is typically viewed as a consumption product in most other countries. For example, in the United States and Turkey, the volume of gold jewelry purchased is negatively correlated to the price of gold. In these countries, gold competes with other consumption items and hence its consumption goes down when gold price rises.

**Gems and jewelry market segmentation: regional preferences for jewelry**
Jewelry consumption behavior in India also varies across geographical regions, with few regions focusing more on investment demand than other regions. This is reflected in geographical differences in terms of gold type, diamond quality, jewelry type, and key decision makers (see figure 17). For example, in the East and South, gold jewelry has a high association

---

**Figure 17**
**Jewelry buying behaviors vary across India**

**Regional preferences of Indian consumers in gold jewelry**

**North**
- **Lead categories:** Rings, pendants, necklaces
- **Gold type:** White and yellow
- **Diamond quality:** SI-I1, lower colors
- **Demand drivers:** Class, status, culture, beauty, adornment
- **Key decision makers:** Women choose, men pay

**East**
- **Lead categories:** Bangles, necklaces, earrings
- **Gold type:** Yellow
- **Diamond quality:** VVS, lower colors
- **Demand drivers:** Tradition, ancestral value, investment, intricate craftsmanship, design
- **Key decision makers:** Women

**West**
- **Lead categories:** Pendants, earrings
- **Gold type:** White and yellow
- **Diamond quality:** VS, all colors
- **Demand drivers:** Investment, status, aesthetics, modern designs
- **Key decision makers:** Equal role for men and women

**South**
- **Lead categories:** Pendants, necklaces, earrings
- **Gold type:** Yellow
- **Diamond quality:** VVS, better colors
- **Demand drivers:** Investment, family bonding, status, culture, tradition
- **Key decision makers:** Women; husband’s permission taken for high-value purchases

---

Source: A.T. Kearney analysis

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20 Shadow Economies All Over the World, policy research working paper, World Bank; other news reports
with culture and traditions, making them better markets for traditional designs. The North and West, on the other hand, have higher demand for white gold and diamond jewelry with class, status, and modern aesthetics as major demand drivers, making them better suited to modern jewelry designs. The difference in consumption behavior leads to dominance of local and regional suppliers.

**Types of traditional designs in Indian jewelry**

India produces various kinds of jewelry art, ranging from Kundan to Meenakari to stone and beadwork, which show a wide range of influences (Mughal art, tribal art, modern art) (see figure 18). Various regions and states in the country often specialize in one or more of these art forms. For example, the state of Rajasthan specializes in Kundan and Meenakari, while places in southern India specialize in pure gold jewelry. As a result, local preferences for jewelry also tend to vary accordingly.

**Importance of the gems and jewelry industry to the Indian economy**

The gems and jewelry industry is important for the Indian economy given its role in large-scale employment generation, foreign exchange earnings through exports, and value addition.

**Significant employment generation**

One of the industry’s most important contributions to the economy is creating jobs. The labor-intensive nature of the industry and the large share of small and fragmented players, particularly

---

**Figure 18**

**India produces a variety of jewelry**

<table>
<thead>
<tr>
<th>Design type</th>
<th>Origin</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure gold</td>
<td>Kancheepuram in south and Varanasi in north have been centers of gold jewelry since historic times</td>
<td>Ornaments made of pure gold, Influence of Mughal art: enameling, filigree work</td>
</tr>
<tr>
<td>Jadau</td>
<td>Practiced in the states of Rajasthan and Gujarat since the Mughal era</td>
<td>Precious and semi-precious stones, gems, crystals, and beads embedded in gold</td>
</tr>
<tr>
<td>Kundan</td>
<td>Reached Rajasthan from Delhi during the Mughal period</td>
<td>Stones encrusted in gold on one side and minakari on the other; core made out of lac</td>
</tr>
<tr>
<td>Meenakari</td>
<td>Introduced by Raja Mansingh of Amer; produced by amalgamation of Lahore-based and local artisans</td>
<td>Intricate designs (for example, flowers or birds) engraved on metal with use of color</td>
</tr>
<tr>
<td>Navratna</td>
<td>Originated in Gujarat and Kutch regions of the country</td>
<td>Use of nine auspicious stones: diamond, ruby, emerald, coral, pearl, sapphire, garnet, topaz, and cat’s eye</td>
</tr>
<tr>
<td>Pachikam</td>
<td></td>
<td>Crude and fragile look and use of silver as base metal</td>
</tr>
<tr>
<td>Tribal</td>
<td>Tribal art inspired; includes Banjara (Rajasthan), Bastar (Madhya Pradesh), Khasi, Jaintia, Garo, Bhutia</td>
<td>Use of components such as bamboo, shells, corals, and feathers</td>
</tr>
<tr>
<td>Stone</td>
<td></td>
<td>Stone-studded jewelry, particularly those with diamonds, gaining popularity among fashion-conscious customers</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis
in jewelry manufacturing, lead to significant employment generation. About 2.5 million people are directly employed by the industry. Diamond processing, gold jewelry fabrication, and jewelry retail account for 92 percent of total employees (see figure 19). The industry is expected to generate 700,000 to 1.5 million additional direct jobs over the next five to seven years.

The distributed nature of the gems and jewelry industry conceals the fact that the employment generated is comparable to large industries (see figure 20). The industry provides employment that is around 2.5 times the number of jobs in basic iron and steel manufacturing and in motor vehicles and trailers manufacturing. In comparison, the output for the gems and jewelry industry (excluding bars and coins) is about 65 percent of that of the manufacture of basic iron and steel and is comparable to that of the manufacture of motor vehicles and trailers. Also, the

---

**Figure 19**

*India’s jewelry industry creates jobs*

**Breakdown of employment in gems and jewelry industry**

(Total employed: 2.5 million)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jewelry retail</td>
<td>36%</td>
</tr>
<tr>
<td>Gold jewelry fabrication</td>
<td>27%</td>
</tr>
<tr>
<td>Diamond processing</td>
<td>28%</td>
</tr>
<tr>
<td>Gemstones processing</td>
<td>5%</td>
</tr>
<tr>
<td>Others</td>
<td>3%</td>
</tr>
</tbody>
</table>

**Total employed** 2.5 million

Note: Percentages may not resolve due to rounding.
Source: A.T. Kearney analysis

**Figure 20**

*The jewelry industry creates jobs on par with large industries*

**Comparison of employment**

(million employees)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparels manufacturing</td>
<td>9.9</td>
</tr>
<tr>
<td>Textile manufacturing</td>
<td>9.5</td>
</tr>
<tr>
<td>Gems and jewelry</td>
<td>2.5</td>
</tr>
<tr>
<td>IT services</td>
<td>2.1</td>
</tr>
<tr>
<td>Chemicals and chemical products manufacturing</td>
<td>1.2</td>
</tr>
<tr>
<td>Basic iron and steel manufacturing</td>
<td>1.0</td>
</tr>
<tr>
<td>Motor vehicles, trailers, and semi-trailers manufacturing</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Note: Gems and jewelry includes manufacture and retail.
employment generated by the gems and jewelry industry is around 26 percent of that provided by the vastly recognized labor-intensive sector of textile manufacturing. It is important to note that a large section of this employment is provided to low-skilled employees. About 70 to 75 percent of employees in diamond processing and 40 to 45 percent of employees in jewelry fabrication have education levels below 10th standard (see figure 21).²¹

**High exports**

The industry makes a significant contribution in terms of exports. Overall, the industry export contribution was INR 227,000 crores between 2012 and 2013, or 14 percent of total Indian exports (see figure 22). Cut, polished diamonds and jewelry are the two most important subsets, with 81 percent share of gems and jewelry exports.

---

**Figure 21**

**Many jewelry employees lack education**

**Percentage distribution of workforce by education level¹**

Cut and polished diamonds

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Cut and polished diamonds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10th standard</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td>10th standard</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>CA, MBA, Diploma and vocational training</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Jewelry fabrication

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Jewelry fabrication</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10th standard</td>
<td>45</td>
<td>90</td>
</tr>
<tr>
<td>10th standard</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>CA, MBA, Diploma and vocational training</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Other professional training</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

¹2006 estimates

Sources: National Skill Development Corporation; A.T. Kearney analysis

---

**Figure 22**

**The gems and jewelry industry contributes to exports**

**Export contribution of gems and jewelry (INR ’000 crores)**

- **India total (INR ’000 crores)**
  - 2011–2012: 1,466
  - 2012–2013: 1,634

- **Cut and polished diamonds**
  - 2011–2012: 188
  - 2012–2013: 227

- **Gold jewelry**
  - 2011–2012: 127
  - 2012–2013: 116

- **Silver jewelry**
  - 2011–2012: 47
  - 2012–2013: 68

- **Rough diamonds**
  - 2011–2012: 10
  - 2012–2013: 10

- **Gold jewelry**
  - 2011–2012: 28
  - 2012–2013: 5

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Others²</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Silver jewelry</td>
<td>47</td>
<td>68</td>
</tr>
<tr>
<td>Rough diamonds</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Gold jewelry</td>
<td>127</td>
<td>116</td>
</tr>
<tr>
<td>Cut and polished diamonds</td>
<td>188</td>
<td>227</td>
</tr>
</tbody>
</table>

²Others includes gemstones and gold and silver in wrought and semi-manufactured form.

Sources: Department of Commerce, Directorate General of Commercial Intelligence and Statistics, Exim Bank, A.T. Kearney analysis

• **Cut and polished diamonds.** India is the world’s largest hub for cut and polished diamonds. Consequently, with total exports of INR 116,000 crores, it accounted for 7 percent of total exports by the country in 2012–2013.

• **Gold jewelry.** India also exported gold jewelry worth INR 68,000 crores in 2012–2013, which was 21 percent of total gold imports (35 percent of gold imported for jewelry).  

Currently, the industry contributes the second-highest share of exports for the country, higher than the textiles and apparels and automotive and other transportation vehicles industries (see figure 23). In comparison, output from the gems and jewelry industry was about 82 percent of the manufacture of textile and apparels and comparable to the manufacture of motor vehicles and other transportation equipment. The economy stands to gain immensely through export promotion of this industry, given the considerable value addition done by the industry. At 25 percent value addition in diamond processing, every INR 20,000 to 25,000 crores (about 20 percent of current exports) increase in export of polished diamonds can reduce CAD by INR 4,000 to 5,000 crores (about 1 percent of CAD 2012–2013). Further, export of high-value-addition jewelry items, particularly diamond jewelry, will similarly have a positive impact on the CAD of the country. However, this would require significant investment in technology, design, and skill development (discussed below).

Figure 23

**Gems and jewelry are the second-largest share of Indian exports**

<table>
<thead>
<tr>
<th>Comparison of exports across industries</th>
<th>(INR ‘000 crores, 2012–2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT services</td>
<td>414</td>
</tr>
<tr>
<td>Petroleum products</td>
<td>328</td>
</tr>
<tr>
<td>Gems and jewelry</td>
<td>227</td>
</tr>
<tr>
<td>Textile and apparels</td>
<td>181</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>100</td>
</tr>
</tbody>
</table>

1 Including filaments, yarns, fabrics, and apparels of cotton, wool, silk, man-made, and others (HS code: 50–63)
2 Including railway or tramway, motor vehicles, aircraft, ships, and components (HS code: 86–89)
Sources: Ministry of Commerce, Exim Bank, news reports; A.T. Kearney analysis

**Significant value addition**

Value addition is a crucial parameter for evaluating the importance of an industry to a country’s economy. Value addition, estimated as the difference between output and raw material input value, effectively gives the contribution of the industry in creation of value and corresponding benefits in the form of profits, salaries, and inputs to other ancillary industries. There is a total value addition of roughly INR 100,000 crores for the industry, which corresponds to about 21 percent of the industry’s total output. For the domestic jewelry market, there is a value addition of INR 70,000 crores (28 percent of domestic jewelry output), of which value addition

22 Includes gold in unwrought, semi-manufactured, or powder form and gold jewelry imported
23 Gold imported for jewelry is defined as the sum of net import of gold in unwrought, semi-manufactured, or powder form and import of gold jewelry imported less domestic sale of bars and coins.
24 Including bars and coins
25 Value addition here is based on the difference between total output and raw materials consumed.
26 Value addition percent calculated as value addition/net exports
on gold constitutes INR 51,000 crores. Value addition occurs through trading, cutting and polishing of diamonds, jewelry manufacture, and retail (see figure 24). Jewelry retail accounts for the largest value addition of INR 51,000 crores, followed by cutting and polishing with INR 27,000 crores value addition.

The gems and jewelry industry has very high input material cost, which contributes to low percentage value addition. However, the value addition of about INR 100,000 crores is significant and is comparable to several large sectors such as apparel manufacturing (see figure 25).

**Figure 24**

**India’s jewelry industry adds value to the economy**

**Value addition across segments**

(INR ’000 crores, 2012–2013)

<table>
<thead>
<tr>
<th>Input (net of exports)</th>
<th>Value addition</th>
<th>Output (net of imports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rough diamonds and other gemstones net import plus production</td>
<td>76</td>
<td>Rough gemstone trade</td>
</tr>
<tr>
<td>Gold net import plus production¹</td>
<td>270</td>
<td>Metal trading</td>
</tr>
<tr>
<td>Silver and platinum net import plus production¹</td>
<td>12</td>
<td>Jewelry fabrication and wholesale</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jewelry retail</td>
</tr>
<tr>
<td>Additional input from inventory:</td>
<td>25</td>
<td>Polished diamond and gemstones net export</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jewelry retail sale (domestic)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Jewelry net export</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bars, coins, other non-jewelry sale (domestic)</td>
</tr>
</tbody>
</table>

¹In raw form

Sources: World Gold Council, Gold Fields Mineral Services, Department of Commerce, Directorate General of Commercial Intelligence and Statistics, A.T. Kearney analysis

**Figure 25**

**Jewelry’s value is similar to other larger industries**

**Comparison of value addition**

(INR ’000 crores, 2012–2013)

<table>
<thead>
<tr>
<th>Basic iron and steel manufacturing</th>
<th>Chemicals manufacturing</th>
<th>Motor vehicles manufacturing</th>
<th>Gems and jewelry</th>
<th>Apparel manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>230</td>
<td>144</td>
<td>123</td>
<td>99</td>
<td>99</td>
</tr>
</tbody>
</table>

Note: Value addition based on difference between gross outputs and material inputs

Sources: Fourth All India Census of MSME (2006-07), unregistered sector, Annual Survey of Industries 2010-2011; A.T. Kearney analysis
The value addition by an industry has multiplying effects on the economy, such as the creation and sustenance of ancillary industries along with employment creation in those industries. For example, a new jewelry store creates business opportunities for interior designers and security services providers. The value addition estimate does not cover the multiplier effect of these benefits.

**Growth outlook and demand drivers**

To analyze the growth drivers, we assessed correlation between gold volume and various parameters such as GDP per capita, private final consumption expenditure, gross domestic savings, gold price, and number of high-income households. However, the relationship between the gold demand in volume terms and these economic parameters is limited.

We also assessed the future price of gold based on gold supply and money supply.\(^2\) The results suggest that if the supply of gold and dollars remains at levels similar to the past five to seven years, gold would have a theoretical value of $1,250 to $1,350 per ounce by 2018. Also, gold futures for December 2018 are trading in the market at around $1,350 per ounce.\(^3\) However, gold prices in India would depend not only on the gold price in dollar terms but also on the rupee-dollar exchange rates and the import duty on gold.

The industry contributes the **second-highest share of exports** for the country.

It is, however, very interesting that the historical jewelry demand in value terms was found to be highly correlated to GDP per capita and not as much to other consumption drivers such as private final consumption expenditure, gross domestic savings, and number of high-income households. What this implies is that regardless of the price, individuals tend to buy based on the total price of a piece of jewelry; if the price is higher, consumers proportionately reduce the grammage or carats they purchase. As such, the jewelry demand has been forecasted in value terms. Part of the relative inelasticity of gold demand to price is explained by the religious and cultural significance of gold—occasions such as weddings, where gold is purchased for adornment and for gifting purpose, and festivals such as Akshay Trithya and Dhanteras. Because most weddings are financed through savings or loans, spending on weddings is less dependent on the current income of the spender. Spending on wedding jewelry is highly consistent within a community but differs across communities.

Thus if one were to extrapolate the demand based on expected GDP per capita trend, the domestic gems and jewelry consumption demand could reach INR 500,000 to 535,000 crores by 2018, from INR 240,000 crores in 2012 (see figures 26 and 27 on page 29). In addition, investment demand in the form of bars and coins could potentially reach INR 180,000 to 190,000 crores by 2018, from INR 85,000 crores in 2012. This assumes that the current macroeconomic environment and industry ecosystem persists. Growth in the domestic gems and jewelry market is thus expected to be affected by the low-growth outlook for the Indian economy. It also assumes the current import restrictions will be removed and there will not be any limiting effect of raw material supply.

\(^2\) Paul van Eeden’s model on theoretical gold value

\(^3\) CME Group
Figure 26
Demand for jewelry and gold is expected to grow

Growth outlook for gems and jewelry and gold bars and coins demand
(INR '000 crores)

- Gold: bars and coins
- Others: jewelry
- Silver: jewelry
- Diamonds: jewelry
- Gold: jewelry

Note: Numbers may not resolve due to rounding.
Sources: World Gold Council, Gold Fields Mineral Services, industry interviews; A.T. Kearney analysis

Figure 27
Investment and consumption demand are expected to grow

Growth outlook for domestic investment and consumption demand
(INR '000 crores)

- Investment demand for bars and coins
- Investment demand for jewelry
- Consumption demand for jewelry

Note: Numbers may not resolve due to rounding.
Sources: World Gold Council, Gold Fields Mineral Services, industry interviews; A.T. Kearney analysis
In sum, the gems and jewelry industry plays a significant role in the economy through its contribution to employment generation, exports, and value addition. However, it caters to two very distinct demands—consumption and investment—with diverse needs and challenges. Some of these challenges can impact the industry’s performance and contribution to the economy if they are not addressed. In the next section, we look into the challenges the industry faces.

Challenges Faced by the Industry

The gems and jewelry industry has significant potential for growth and the corresponding increase in value addition, exports, and employment generation. However, certain structural challenges are keeping the industry from reaching its full potential. In addition, recent regulatory challenges could further cripple the outlook for the industry. We have developed a comprehensive view of these challenges by scanning the entire value chain across consumption and investment demand and found seven key challenges that need to be addressed to ensure sustainable growth for the industry (see figure 28).

Figure 28

*The jewelry industry faces seven challenges across the value chain*

While challenges in talent and skill development, research and technology adoption, and limited financing options are central to players catering to the consumption demand for jewelry, an increasing investment demand with limited supply infrastructure catering to it affects the investment side of the market. High import dependence affects both consumption and investment demand.

**High import dependence and limited recycling**

**High import dependence**

One of the biggest challenges faced by the industry stems from its dependence on gold imports. Compared to an average of about two tons of domestic production of gold, roughly 1,000 tons of gold was imported between 2012 and 2013. Gold is the second-largest import item after crude, with an import bill of INR 307,000 crores (including gold as part of jewelry) in 2012–2013 (see figure 29 on page 31). Of this, around INR 152,000 crores of imported gold was for jewelry manufacturing catering to the domestic market and around INR 92,000 crores was for
bars and coins, with the remaining gold exported primarily as jewelry. The high dependence on imports makes the gems and jewelry industry susceptible to any regulations that constrain gold imports. For example, the high CAD (4.8 percent of GDP) in India has led to concerns over the import bill of gold that caters to the domestic gems and jewelry industry and bars and coins manufacturing. Consequently, a series of regulatory measures have been taken to reduce gold imports. While the regulations aim to reduce the current account deficit, they will also have restrictive influences on the growth of the gems and jewelry industry. (The regulatory landscape is discussed later in this section.)

Limited recycling

India has the world’s largest above-ground stock of gold. However, recycling is limited: the supply of gold from old gold scrap was only around 13 percent of total domestic consumer demand for gold in 2012, or less than 1 percent of the above-ground stock of gold in India (see figure 30). By comparison, the supply of old gold scrap in Turkey is around 60 percent of total domestic

Figure 29

Gold is India’s second-largest import item

Import basket of India
(INR ‘000 crores, 2012–2013)

- Crude and petroleum
- Gold (unwrought, semi-manufactured, powder)
- Machinery, mechanical parts, nuclear reactor, boilers
- Electrical and electronics
- Diamonds
- Others

Total 2,669

Note: Percentages do not resolve due to rounding.
Sources: Department of Commerce, Directorate General of Commercial Intelligence and Statistics; A.T. Kearney analysis

Figure 30

India has a low supply of gold from scrap

Ratio of gold supply from old gold scrap to gold demand, select countries¹ (2012)

India 0.13
Turkey 0.61
U.S. 0.79

Supply of gold from fabricated old gold scrap (tons) 113 72 128

¹Gold demand for jewelry and bars and coins only
consumer demand for gold.\(^2\) The wide difference is attributable to the unique perception of gold in the minds of the Indian consumer, whereby the sale of family gold is seen as a social taboo and to be considered only in the case of acute financial crisis. As a result, there is a hoarding tendency by individuals and institutions such as temple trusts. There is also a lack of incentive to sell household gold because there is a loss in value on the sale of gold jewelry and the buyback price provided by jewelry retailers for old gold is lower (up to 10 percent) than the gold selling price to account for impurities in used gold.

The dependence on imports and limited recycling has spurred initiatives to encourage higher recycling such as the gold deposit schemes of State Bank of India, which targeted both retail customers and trusts to loan out their gold holding. However, these schemes had limited success because of insufficient coverage and communication, their unattractive structure, and consumer inhibitions.

**Insufficient coverage and communication by banks.** The scheme is offered by only a handful of banks. Of roughly 36 banks authorized to deal in gold, only about four have taken up the scheme as it was perceived as a non-core activity. In addition, the banks lacked the infrastructure required to convert jewelry to pure gold bars. Even the banks that offered the scheme failed to promote the scheme aggressively, launching it only in select branches in urban markets with limited communication. For example, only 54 branches of a total of more than 13,500 branches of SBI offer this scheme. More important, the role of the jeweler, a key stakeholder in the gold value chain, was not clearly defined, thereby limiting the coverage of the scheme.

**Unattractive scheme structure.** The scheme offered very low interest rates of 1 percent per year on a deposit of four years and above, making the scheme less attractive to retail customers. In addition, the scheme needed a minimum deposit of 500 grams of gold (a large quantity to expect from individuals), thus excluding a majority of retail customers. A very long lead time of 90 days for banks to issue gold deposit certificates after deposit of gold also deterred customers.

**Consumer inhibitions.** In many cases, gold is either inherited from family or gifted from someone, without proper traceability. In addition, gold is also purchased through cash transactions without proper receipts. The inability of customers to furnish proof of source of jewelry and the fear of investigations by authorities kept consumers from participating in the scheme.

**Overregulated consumption industry and underdeveloped investment industry**

The industry faces regulatory challenge from a lack of differentiation between consumption and investment resulting in overregulated consumption and underdeveloped investment industries.

**Limited regulatory differentiation between investment demand and consumption demand.** There is a lack of regulatory differentiation between the consumption and investment industries. While a large share of imports feeds the investment needs of customers, import restriction-led initiatives go on to affect the consumption side of demand as well. Restrictive regulatory actions have hindered growth of the consumption value chain, slowed the move toward higher industry transparency, and reduced financial sustainability for jewelry manufacturers. In addition, there is no clear policy to specifically cater to the investment demand and develop this market. A large supply market, including jewelers, caters to the investment demand for gold, which is not well monitored. Overall, the consumption industry is overregulated, and the investment industry is underdeveloped.

\(^2\)Based on World Gold Council and Gold Fields Mineral Services data
Assessment of regulations across the value chain. The issues pertaining to regulations span the entire jewelry value chain (see figure 31). The main areas of concern are regulations around imports, trading, manufacturing, and consumer protection in terms of quality.

Figure 31
Regulations across the jewelry value chain

<table>
<thead>
<tr>
<th>Current regulations</th>
<th>Detail</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sourcing and trading</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Import duty</td>
<td>• Customs duty of 10% for gold in August 2013 compared to 2% in January 2012</td>
<td>• High import duty aimed to reduce gold imports</td>
</tr>
<tr>
<td></td>
<td>• Import agencies to ensure minimum one-fifth of each lot of gold import is made available for export (non-SEZs or EOUs, and so on)</td>
<td>— May provide incentive to unofficial channels with 5-10% difference in gold price; unofficial imports of around 100 tons in 2012¹</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Requirement for 20% export will constrain the gold imports through official channels</td>
</tr>
<tr>
<td>• RBI directive: 20-80 rule of export-import of gold</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Design</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• RBI directive: Gold deposit scheme</td>
<td>• Gold deposit scheme: Banks can provide gold deposit schemes of maturity between 6 months and 7 years</td>
<td>• Change of minimum maturity period for gold deposit scheme from 3 years to 6 months has made the scheme more attractive</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sourcing of gold from LBMA adds to the import burden of the country since banks cannot buy domestic recycled gold</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Sourcing gold for ETF</td>
<td>• Gold ETFs: Can source gold only from RBI refinery or LBMA certified refiners</td>
<td></td>
</tr>
<tr>
<td>• Design registration rule</td>
<td>• Jewelry designs can be registered to give owner protection against piracy</td>
<td>• Policy framework exists; need wider acceptance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Issues: enforcement difficulties, low awareness</td>
</tr>
<tr>
<td>• SEZ or EOU rules</td>
<td>• SEZs and EOUs to promote exports — Duty-free inputs for manufacturing — Minimum 3% value addition requirement for units in SEZs — 15% import duty on jewelry compared to 10% on raw gold</td>
<td>• Formation of SEZs and EOUs and minimum value addition norm has promoted jewelry exports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Higher customs duty on jewelry import protects domestic manufacturers from imports</td>
</tr>
<tr>
<td>• RBI directive: Gold (metal) loan</td>
<td>• Gold (metal) loans currently unavailable to domestic manufacturers</td>
<td>• Limits financing options for jewelry manufacturers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Higher working capital requirements and gold price risk</td>
</tr>
<tr>
<td><strong>Retailing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• KYC norm (under Anti-Money Laundering Act)</td>
<td>• Gold and precious stone purchases more than INR 50,000 proposed to come under know-your-customer norm (as against INR 5 lakhs done on TDS purpose)</td>
<td>• Significant gold transactions done in cash and hence provide easy source of hoarding; the new regulation would make this difficult</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Implementation may only be feasible in long term, given current infrastructure</td>
</tr>
<tr>
<td><strong>Consumer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Hallmarking</td>
<td>• Gold hallmarking (BIS) recently made mandatory but limited implementation so far</td>
<td>• Limited implementation, particularly in the unorganized sector, exposes customers to risks related to quality or under-caratage</td>
</tr>
<tr>
<td>• Conflict-free diamonds</td>
<td>• No import or export of rough diamonds is permitted unless accompanied by Kimberley Process Certificate</td>
<td>• Protects customers and ensures use of conflict-free diamonds</td>
</tr>
</tbody>
</table>

¹ Gold Fields Mineral Services Gold Survey 2013
Note: RBI is Reserve Bank of India. SEZ is special economic zone. EOU is export oriented unit. ETF is exchange-traded fund. LBMA is London Bullion Metal Association. KYC is know your customer. TDS is tax deducted at source. BIS is Bureau of Indian Standards.
Source: A.T. Kearney analysis
The financial industry for gold-based products also faces regulatory challenges. Approvals for new gold ETFs have been rejected by the Securities and Exchange Board of India in an effort to contain gold imports. Also, some regulations prevent banks from sourcing gold from the domestic market. These have hindered the growth of the industry and prevented it from tapping the full potential for gold-based investment demand.

**Impact of restrictive regulations**

Given the significance of the industry to the nation’s economy, it is important to assess the potential impact of regulations on employment, exports, and value addition. For example, the recent regulatory measures to curb gold imports that are aimed at reducing the current account deficit can potentially have negative ramifications on employment. It is estimated that with every 100-ton reduction in domestic jewelry sales, roughly 2.5 lakh employees in jewelry manufacture and jewelry retail could lose their jobs. Alternatively, there could be a rise in unofficial imports, which will lead to higher levels of cash transactions for gold purchase in the domestic market and a loss of tax earnings for the government.

**Comparison with other markets**

A comparison across the value chain with other similar markets, such as Turkey, highlights the significant differences in regulatory structure (see figure 32). Turkey has created a highly conducive environment for its gems and jewelry industry and encouraged the use of gold as an investment asset by monetizing gold.

Similarly, Dubai has set up extensive quality-control measures to ensure consumer protection. Jewelers are mandated to indicate the purity of the jewelry and include their name on every article sold. This is combined with a severe penalty system for under-caratage—loss of license if reported and proven. Such strong regulatory focus ensures that purity is a priority.

---

**Figure 32**

Turkey’s regulations create a favorable environment for gems and jewelry

<table>
<thead>
<tr>
<th>Regulations in Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sourcing and trading</strong></td>
</tr>
<tr>
<td>Duty-free import of gold</td>
</tr>
<tr>
<td>High focus to bring gold under the purview of financial systems and out of households, with innovative products like gold accounts</td>
</tr>
<tr>
<td>High focus on gold as investment option with 18 different gold instruments, facility to transfer gold between bank accounts, and promotion of gold ETFs</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
</tr>
<tr>
<td>Several policies to encourage manufacturing in the country (for example, large-scale jewelry manufacturing hub set up at Kuyumcukent)</td>
</tr>
<tr>
<td>Gold credits available to manufacturers</td>
</tr>
<tr>
<td><strong>Retailing</strong></td>
</tr>
<tr>
<td>KYC-covered entities include dealers of precious metals, stones, jewelry, and precious metals exchange intermediaries</td>
</tr>
<tr>
<td><strong>Consumer</strong></td>
</tr>
<tr>
<td>No centralized process for hallmarking of gold jewelry</td>
</tr>
</tbody>
</table>

Note: KYC is know your customer. ETF is exchange-traded fund.
Source: A.T. Kearney analysis
Large investment demand and associated supply infrastructure

There is a large investment demand for physical gold in the form of bars, coins, and jewelry. In 2012, there was gold demand of 312 tons for investment as bars and coins and 385 to 390 tons for investment in jewelry form. The demand for bars and coins has grown from 100 tons in 2004 to 312 tons in 2012, with a CAGR of 15 percent in volume terms compared to overall gold demand growth of 4 percent (see figure 33). Investment demand has been driven by bars and coins as the loss on charges for these is lower than for jewelry.

Figure 33
Demand for gold bars and coins has grown

Gold demand for jewelry and bars and coins investment, India (tons)

<table>
<thead>
<tr>
<th>Total demand (tons)</th>
<th>2006</th>
<th>2008</th>
<th>2010</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total demand</td>
<td>722</td>
<td>713</td>
<td>1,006</td>
<td>864</td>
</tr>
<tr>
<td>Gold demand</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bars and coins</td>
<td>27%</td>
<td>30%</td>
<td>35%</td>
<td>36%</td>
</tr>
<tr>
<td>Jewelry investment</td>
<td>46%</td>
<td>47%</td>
<td>43%</td>
<td>45%</td>
</tr>
<tr>
<td>Jewelry consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Percentages may not resolve due to rounding.
Sources: World Gold Council; A.T. Kearney analysis

The high investment demand for physical gold is driven by the attractiveness of gold as an investment option, the ease of investing in small denominations, the perceived capacity to hedge against inflation, the ease of investing unaccounted money in gold, and the limited number of alternative investment or savings options for a large section of society.

The supply side for physical gold investments is dominated by jewelers because of the lack of alternative channels. Coins can be purchased from banks, but banks charge a premium of around 5 percent. In addition, coins are not bought back by the banks, making them a less attractive channel for gold investment in physical form. As a result, many local and independent jewelers are focused on catering to this investment demand.

There are a number of small jewelers with very low retail stocks of jewelry on display that are effectively bullion traders or money lenders catering primarily to the investment need.

Two key challenges emerge as a result:

- The increasing physical gold demand for investments increases the import bill, but has limited effect on the growth of the gems and jewelry industry. In the form of bars and coins,
the demand has value addition of around 1 percent—much lower than the 15 to 20 percent value addition in jewelry. Similarly, investment demand and low-value-added jewelry increase the import bill without proportionate value addition to the economy. Any regulatory action aimed at this segment also hurts the consumption side of the demand.

- A large section of the jewelry industry is playing the role of financial institution by catering to investment needs and money lending, particularly in rural areas. And since it is not regulated like other financial institutions, it could be a risk to consumers who are not aware.

**Perception of opaqueness**

The industry is fragmented, with the MSME segment dominating and most jewelry manufacturers and retailers run as family businesses (see figure 34). This is because in manufacturing, there is a low cost of capital requirement compared to other common manufacturing industries. Also, because of local tastes and preferences, a major part of manufacturing is handcrafted by artisans and craftsmen.

**Figure 34**

**Many jewelry manufacturers and retailers are small businesses**

*Ratio of unregistered MSME units to number of registered units¹*

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Unregistered MSME Units</th>
<th>Number of Registered MSME Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jewelry manufacturing</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>Textile manufacturing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹Registered units include registered factories (enterprises under the purview of ASI 2010-11) and registered MSME units. MSME is micro, small, and medium-size enterprises.

Sources: Ministry of Statistics and Programme Implementation, Ministry of MSME, A.T. Kearney analysis

Most of the family-owned businesses are not listed on domestic stock markets. The business on the export side is well documented thanks to statutory requirements. On the domestic side, the industry has seen an increase in the share of organized sector with several large national and regional players. These large players are increasing the transparency of the industry by sharing data on industry and company performance with investors, banks, and the general public. That said, a good part of domestic market operations are cash based, from the purchase of inputs for jewelry to retail and finally to the end consumer. Value drivers in the industry are not well understood. As a result, the government, other industries, investors, and the general public perceive the industry as being opaque.

**Limited financing options for the industry**

The industry is facing challenges in the availability of low-cost financing. Traditionally, there were two types of financing available to jewelers: gold (metal) loans and short-term bank loans. However, gold (metal) loans have been made unavailable for domestic jewelers, leaving only the short-term bank credit option. The short-term bank credits such as cash credits or letters of
credit (LC), with interest ranging from 10 to 15 percent, are costly for the industry as the raw material costs are high and lead to financing challenges for jewelers (see figure 35).\(^3^0\)

Other industries such as apparel and consumer durables have better financing options, including equipment finance, bill discounting, cash management services, and structured cash flow financing (see figure 36). Also, in the jewelry sector of other countries, asset-based lending models are used, where advance rates are applied to the value of assets.

Figure 35
Most jewelry retailers rely on credit from suppliers

<table>
<thead>
<tr>
<th>Procurement</th>
<th>Diamond processing</th>
<th>Diamond trading</th>
<th>Jewelry manufacturing</th>
<th>Distribution</th>
<th>Retailing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Packing credit:</strong> for diamond exports only</td>
<td>Available for 180 days pre-shipment and 180 days post-shipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gold (metal) loan</strong> against bank guarantee (now discontinued)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Letter of credit on gold</strong> is available for 90 days through nominated agencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cash credit: for domestic consumption

**Working capital demand loan**

**Letter of credit** (180 to 364 days, if the cycle is justified)

Source: A.T. Kearney analysis

Figure 36
Other industries have better financing options than jewelry

Apparel value chain

Consumer durables value chain

Financing options

- **Producer finance**
  - Agricultural credit
  - Equipment finance
- **Trader finance**
  - Import and export credit
  - Derivative desk
- **Equipment finance**
- **Term loans**
- **Working capital loans**
- **Structured cash flow financing**
- **Vendor or dealer finance**
- **Bill discounting**
- **Export or import credit**
- **Cash management services**
- **Short-term finance**
- **Structured cash flow financing**

Source: A.T. Kearney analysis

\(^3^0\)Interest on gold (metal) loans, for example, is 3 to 5 percent.
Risk of talent shortage

The gems and jewelry industry directly employs about 2.5 million people, and it is estimated that 700,000 to 1.5 million additional jobs will be created in the next five to seven years. Further, the consumption demand for jewelry is fast evolving, and there is a growing demand for new designs and higher value addition. These changing customer requirements are increasingly creating a need for a more highly skilled workforce. However, there is a growing gap in skill availability as the skill development process in the fragmented part of the industry is primarily achieved through an apprenticeship model and on-the-job training. This leads to longer training time and gaps in the availability of modern jewelry manufacturing and diamond-cutting and polishing skills.

Skill gaps in the industry

In the diamond-cutting and polishing segment, key skill gaps include skilled manpower for operating laser machines for cutting and polishing of diamonds, knowledge of computers, and understanding of modern techniques for assortment and planning. The jewelry manufacturing and retailing segment faces gaps in the availability of employees that can use design software (CAD) and stay abreast of international design trends and preferences in jewelry design. There is also a shortage of people capable of using modern machines and understanding modern techniques for processes such as soldering and plating in jewelry manufacturing.

Changing customer requirements are increasingly creating a need for a more highly skilled workforce.

Underlying reasons for talent shortage

These skill gaps are caused by underlying factors that hinder the development of a more highly skilled workforce:

Gaps in skill development infrastructure and limited demand. While there are institutes that provide courses for the gems and jewelry industry across the value chain, availability is limited. Course fees are high, and the lack of equivalent compensation from the industry reduces the utility of the training to the worker. For example, a professional diamond-grading and manufacturing course of 20 to 24 weeks costs about INR 40,800, while a short-term eight-week course on industry-oriented professional jewelry design costs about INR 50,000. A large share of the workforce comes from the low-income segment of the population and is unable to afford these courses. There is a need for absorption of skilled workers in the organized sector, which uses modern machines and can take advantage of these skills. With the fragmented nature of the industry, however, there is limited demand for this talent pool, which creates a vicious cycle that restricts overall skill development in the industry.

Low attractiveness of the industry to younger generation of workers. Sustainable growth for any industry requires an ongoing inflow of new talent. Unfortunately, the gems and jewelry industry faces difficulties in attracting younger workers for several reasons, including inadequate working conditions for manufacturing, low salaries, and an overall small-scale and fragmented

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31 Human Resource and Skill Requirements in the Gems and Jewellery Sector (2022), National Skill Development Corporation
image of the industry (see figure 37). Inadequate working conditions and limited compliance of health and safety standards in the manufacturing industry have also led to low interest in the industry. The working conditions, particularly for jewelry manufacture, have not kept pace with advancements. Most workshops are small, with karigars (skilled workers) toiling without fans to prevent the loss of gold. The small scale of these facilities does not allow the use of some amenities, such as air conditioning. These factors make it challenging to attract new, young talent to the industry.

**Limited research and technology adoption**

Technology and research-led innovation are key factors in the long-term future of an industry, where they are needed in both design and manufacturing. While use of better designs can enable jewelers to differentiate in the market and attract higher premiums, technology can improve both productivity and the quality (finish) of the jewelry.

**Design-led innovation.** Innovations in jewelry design are needed to meet the changing needs and tastes of customers. While the industry is adept at traditional designs, there is a lack of design-led innovations and a gap in adoption and development of modern designs, particularly in the large fragmented sector. This could be a crucial limiting factor in meeting the demands of the export market. A design focus is also becoming important in the domestic market, with changing consumer preferences and wider awareness and acceptance of western designs.

**Technology usage in manufacturing.** The use of technology in manufacturing, specifically in the fragmented part of the industry, is limited in India due to inadequate facilities, and has led to a lack of standardization and challenges in quality control. As a result, productivity and the quality of jewelry is poorer than more technology-focused countries such as Thailand and China. While Indian jewelry is extraordinarily varied, countries such as Thailand produce a far better finish that is recognized internationally. As consumers become more aware of standardization and quality, the need for technology and work practices that ensure better finish and consistency increases.

**Details of technology gaps.** While the diamond-processing industry has a higher adoption of modern machines, jewelry manufacture is largely done manually. It is estimated that the ratio of manual- to machine-oriented work in the industry is around 70 to 30 for jewelry manufacture.
and 40 to 60 for diamond processing. Even in diamond cutting and polishing, Indian companies use less technology than their global counterparts. Some examples include:

- **Diamond cutting.** While there has been an increase in the use of laser machines, blade sawing machines—which are three to four times slower and have higher weight loss than laser machines—are still by far the number one choice.

- **Faceting and polishing.** Currently, faceting and polishing are done manually, with very low use of auto faceting and polishing machines.

- **Planning.** Software use is limited, as planning is largely done through a manual process resulting in lower yield.

- **Technology.** The use of technology in jewelry manufacture is limited.

- **Model making and prototyping.** Most model and mold making is done manually, with very low use of CAM- or CAD-based systems for rapid prototyping and model making.

- **Jewelry design.** Traditionally, design in small-scale manufacturing setups is done on paper, which is more time-consuming. A trend toward adopting CAD-based designs, particularly in the organized sector, has increased design precision and the level of detail.

- **Grinding and assembly process.** Grinding machines are rarely used, and assembly is done by manual soldering.

Finally, a case has been made for the adoption of enterprise solutions to enable a seamless flow of information and scale-up of operations for gems and jewelry companies.

Given these challenges, the performance of the industry on key metrics could remain stagnant or become increasingly unattractive (see figure 38). We have assessed the following two scenarios for market evolution by 2018:

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### Figure 38

**Industry performance on key metrics could remain stagnant or become unattractive**

<table>
<thead>
<tr>
<th>Metric</th>
<th>2012 Baseline</th>
<th>2018 Business as usual</th>
<th>2018 Constrained gold supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports (INR ‘000 crores)</td>
<td>306</td>
<td>660–880</td>
<td>450–460</td>
</tr>
<tr>
<td>Gold recycling (percent of domestic demand)</td>
<td>-20%</td>
<td>-20%</td>
<td>-20%</td>
</tr>
<tr>
<td>Employment (millions)</td>
<td>2.5</td>
<td>3–4</td>
<td>2–3</td>
</tr>
<tr>
<td>Consumption market—jewelry (INR ‘000 crores)</td>
<td>177</td>
<td>370–390</td>
<td>190–210</td>
</tr>
<tr>
<td>Investment market—jewelry (INR ‘000 crores)</td>
<td>63</td>
<td>130–140</td>
<td>65–75</td>
</tr>
<tr>
<td>Investment market—bars and coins (INR ‘000 crores)</td>
<td>85</td>
<td>180–190</td>
<td>95–100</td>
</tr>
<tr>
<td>Exports (INR ‘000 crores)</td>
<td>69</td>
<td>150–160</td>
<td>150–160</td>
</tr>
<tr>
<td>Value addition—jewelry (INR ‘000 crores)</td>
<td>68</td>
<td>135–145</td>
<td>65–70</td>
</tr>
<tr>
<td>Percent share of organized retail</td>
<td>-20%</td>
<td>-25%</td>
<td>-22%</td>
</tr>
</tbody>
</table>

1 Gold and gold jewelry only
2 If import restrictions are removed
Source: A.T. Kearney analysis

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32Gems and Jewelry Market—India, Netscribes, May 2010
**Business as usual.** This scenario assumes no structural changes in the industry and that businesses function normally without undergoing any major transformation. It also assumes that the recent regulatory restrictions around imports do not continue in the long run and that industry does not face any supply constraints due to reduced flow of gold imports.

**Constrained gold supply.** If the regulatory restrictions on gold imports continue, it will have a significant effect on the market. This scenario assumes that the 80-20 rule for import-export will constrain the gold imported by non-SEZ or EOU units as they will not be able to export 20 percent volume of every lot of gold imported. The limited gold imports will result in a significantly smaller domestic market—both consumption and investment—and a significantly lower value addition. It is assumed that other macroeconomic and structural factors remain the same as in the business as usual scenario.

The industry is in danger of complete stagnation, with very little growth if import constraints continue (see figure 39). Such stagnation will have a significant impact, including loss of livelihoods and closure of businesses. It is thus that stakeholders such as the government, RBI, and industry drive large-scale transformation and ensure a sustainable and growing industry. Key structural and regulatory challenges should be addressed. Six questions need to be answered by all stakeholders to enable this transformation:

- How can the import burden for the industry be reduced through higher recycling?
- What initiatives are needed to ensure infrastructure and skill development?
- How can the industry remove the perception of opaqueness?
- How can better financing options be provided to the industry?
- How can regulations enable industry growth by differentiating between consumption and investment demand?
- How can large investment demand be managed and regulated through financial systems?

In the next section, we look at potential solutions to spur a transformation of the industry.

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**Figure 39**

**The industry could stagnate if import constraints continue**

**Total jewelry and bars and coins market scenarios**

(INR ‘000 crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Business as usual scenario</th>
<th>Constrained gold supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>324</td>
<td>350-385</td>
</tr>
<tr>
<td>2018e</td>
<td>680-720</td>
<td>680-720</td>
</tr>
</tbody>
</table>

Sources: World Gold Council, Gold Fields Mineral Services, industry interviews; A.T. Kearney analysis

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33 SEZ is special economic zone. EOU is export oriented unit.
Imperatives for Sustainable Growth of the Industry

The gems and jewelry industry faces many challenges that can hamper its growth. However, the industry also has opportunities to transform itself and help ensure sustainable growth and a greater contribution to the Indian economy through higher employment generation and exports. A set of coordinated actions across six solution themes address the challenges previously discussed (see figure 40):

**Solution themes for India’s jewelry industry**

<table>
<thead>
<tr>
<th>Consumption demand: Jewelry</th>
<th>Design</th>
<th>Manufacturing</th>
<th>Distribution and retail</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetize existing investment, recycling</td>
<td>Develop infrastructure and skills to cater to specific needs of consumption demand</td>
<td>Offer easy financing options</td>
<td>Improve perception of industry opaqueness</td>
<td>Liberalize regulations affecting the consumption value chain</td>
</tr>
<tr>
<td>Investment demand: Jewelry</td>
<td></td>
<td></td>
<td></td>
<td>Develop and regulate the investment value chain</td>
</tr>
<tr>
<td>Investment demand: bars and coins</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Monetize existing investment and recycling

The Indian gems and jewelry industry is heavily dependent on gold imports. Recycled gold and mines satisfy less than 25 percent of the industry demand, with imports constituting a much higher proportion (more than 75 percent) of overall industry demand. This makes the industry vulnerable to changes in import policies. With an imminent need to reduce dependence on gold imports and limited production of gold in India, the focus has to be on the recycling of domestic gold.

**Magnitude of above-ground gold reserves in India.** India has one of the largest reserves of gold in the world. In the past two decades, there has been cumulative fresh gold consumption of about 15,000 tons. It has been estimated that 20,000 to 25,000 tons of gold is held by retail customers, temple trusts, and banks. While there are no official figures, various sources estimate that 1,800 to 2,000 tons of gold are held by temple trusts in the country. This could present a significant recycling opportunity.

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34 Based on World Gold Council data
35 Based on news reports
**Potentially recyclable gold and recycling target.** Some domestic gold, particularly gold that feeds the consumption demand for jewelry, may not be recyclable. However, the parts feeding the investment demand (constituting about 45 percent of the market) are more suited to recycling, which means that roughly 11,000 tons may be recyclable. A national target to double the supply of gold from domestic above-ground reserves to meet 40 to 45 percent of industry demand may be achieved even if 4 percent of the recyclable gold is brought out for recycling every year.

To enable higher recycling, schemes such as gold deposit schemes need to be made more attractive for retail customers and temple trusts alike. These schemes could be improved by involving jewelers as stakeholders and by making the scheme structure attractive for targeted customers.

- **Widen the availability of gold deposit schemes offered by banks.** The schemes need to be offered by more banks, and more importantly, need to be available at more bank branches. Specific focus has to be made to ensure availability of the schemes at more bank branches in non-urban areas.

- **Involving jewelers as stakeholders in the scheme.** Jewelers have a wider reach than banks and can be incentivized to act as business associates for the banks. With their deep relationships with customers, their ability to identify recycling opportunities and persuade consumers to recycle is very high. They could collect gold from customers and issue the gold deposit certificate on behalf of the bank after testing the purity. This reduces the lead time for the issuance of gold deposit certificates. It also addresses the concern over the lack of sufficient infrastructure, with banks to test purity and melt gold. Jewelers could also act as redemption centers on maturity of the term, allowing customers to redeem their deposit for gold or cash.

- **Attractive scheme structure.** Improving the interest rates on the schemes is necessary to make them attractive to retail customers. In addition, the schemes should offer sufficient flexibility to customers by reducing the minimum deposit amount from the current 500 grams. Simplifying the prerequisites for participation in terms of documentation required could potentially increase participation from retail customers. Also, a rupee-denominated high rate of return (greater than the perceived return on gold) in the form of government bonds, coupled with tax incentives, could be considered.

Given the high volumes of gold held by temple trusts, the government is advised to reach out to them to ensure they are brought into the schemes. Alternatively, standalone schemes designed specifically for temple trusts could be introduced. In addition to the gold deposit scheme, other schemes being assessed by RBI (such as gold pension products and gold accumulation schemes) could be explored to increase gold recycling. Enabling banks to buy back gold from the domestic market will help in recycling of gold and enable creation of an integrated system involving domestic refineries, the domestic scrap market, and banks, which will be able to use this gold for ETFs, thereby reducing the import burden. Also, implementing a gold ceiling act that limits the amount of gold held by an individual or organization (similar to that for land), with the aim of getting gold from temple trusts, might be considered.

An increase in the recycling of domestic gold can help in reducing imports for the industry. It is estimated that by 2018, gold imports could fall by around INR 60,000 to 65,000 crores, equivalent to 9 to 10 percent of import requirements under the business as usual scenario. Also, gold recycling may increase to 40 to 45 percent from the current value of around 20 percent.
Liberalize regulations affecting the consumption value chain

It is important to differentiate between the consumption and investment value chains. Several existing regulations governing the jewelry value chain have hampered the growth of the industry and have hindered the shift toward greater transparency and higher growth.

There is a need to free consumption-led jewelry demand from restrictive regulation and to create a positive environment for domestic manufacturing and retail. Some helpful measures include the following:

Procurement

The import duty of 10 percent on gold is high compared to duty-free import policies in comparable markets such as Turkey and UAE. In addition, a higher import duty has increased the incentives for gold transactions through unofficial channels. Reducing the import duty and rationalizing the current 80-20 import-export rule can bolster the shift toward greater transparency in the industry by reducing the incentives to move gold through unofficial channels.

Additionally, easing the regulation on banks for domestic gold by allowing them to source gold from domestic sources other than an RBI refinery, for the purpose of exchange-traded funds, would aid in reducing the dependence on imports of gold for investments.

There is a need to **free consumption-led jewelry demand from restrictive regulation** and to create a positive environment for domestic manufacturing and retail.

Manufacturing and retail

The unavailability of gold (metal) loans to domestic manufacturers and retailers has led to an increase in working capital funding requirements for jewelers and exposed them to price risk (due to holding of gold inventory). Increasing the financing options for jewelers by ensuring the availability of gold (metal) loans would also discourage cash transactions by jewelers and ensure higher sustainability of operations.

Customer protection

While there has been a significant increase in the adoption of Bureau of Indian Standards (BIS) hallmarking on jewelry, the practice is limited primarily to organized players, thereby exposing customers to risks related to quality and under-caratage. Hallmarking needs to be widely implemented to protect customers’ interests, with nationwide rollout in the next three years. In addition, reducing the procedural complexities involved in the process of hallmarking pertaining to wholesaler stamping, including the need for separate stamping across different branches, would encourage more players to opt for hallmarking. Alternatively, jewelers may be mandated to indicate the gold purity and their own label on each jewelry piece so that cases of under-caratage are easily traced back to the jeweler. Further, to ensure proper implementation, strict punitive measures, including loss of license in cases of proven reported under-caratage, could be undertaken.
The gems and jewelry industry in Dubai has witnessed significant growth supported by policy changes. This has helped in establishing Dubai as the major trading hub for gems and jewelry. There is much India could learn from the Dubai success story (see sidebar: Learning from the Transformation of the Jewelry Industry in Dubai).

**Develop and regulate the investment value chain**

Given the high investment demand for gold, the investment value chain needs to be regulated. Developing alternative investment options at the same time to cater to this demand will ensure effectiveness.

**Regulate investment value chain**

The investment value chain needs stronger regulation and monitoring. Several measures are recommended:

- **Regulate bars and coins sale.** To bring investment demand under the purview of financial systems, in the long term discourage jewelers from selling bars and coins to retail customers. Make bars and coins available through banks only. Banks may also reconsider buying back gold coins they have sold, making this market more liquid and attractive to customers.

- **Regulate unofficial credit and investment systems.** Bring the practice of jewelers acting as money lenders and traders to satisfy the large rural demand under regulatory scope. Unofficial credit and investment systems need to be scrutinized and measures taken to limit them. While it is difficult to regulate every money-lending situation between a borrower and lender, enabling financial organizations that provide loans against gold may discourage customers from seeking loans from unofficial channels and help establish better regulatory supervision. The unofficial systems can also be made less attractive by creating effective and widely available alternative investment options for customers such as gold-linked accounts and gold pension products (discussed later in this paper).

- **Control the flow of unaccounted money.** Implementing the know-your-customer norm under the Anti-Money Laundering Act may deter the channeling of black money through gold, with the industry transparent and focused only on genuine demand.

**Learning from the Transformation of the Jewelry Industry in Dubai**

The UAE has focused on developing the country as one of the largest diamond and jewelry trading hubs in the world through initiatives of the Dubai Multi Commodities Centre (DMCC) and duty-free import regime. Dubai is now one of the top diamond trading centers in the world with $39 billion in trading done through Dubai Diamond Exchange in 2011, compared to $5 million diamond trade in Dubai before the 2005 establishment of the DMCC. It is also a vibrant gold trading hub with more than 130 countries as gold import partners spread across the Indian sub-continent, Southeast Asia, Africa, and Europe.

This has been achieved through a low tax regime coupled with significant focus on infrastructure development for trading. Development of free zones such as the Jumeirah Lakes Towers (JLT) Free Zone has added impetus to businesses. Some of the facilities offered at JLT include 100 percent foreign business ownership, zero personal and corporate tax, unique industry clustering, and purpose-built infrastructure, leading to clustering of more than 6,500 companies. The benefits of these initiatives to the gems and jewelry industry of UAE are significant.
Develop alternative investment options and supply infrastructure to cater to this demand. The investment side of the industry also needs to be managed by providing alternative financial instruments for a wider section of society, creating easy investment options in physical gold, and developing gold-backed financial instruments.

**Availability of banking infrastructure to provide alternative investment options.** Bringing more customers under the purview of banking by improving access to the banking system can reduce investment demand for gold. Use of m-banking—enabling customers to access banking facilities over mobile phones—coupled with unique identification (UID) can help increase banking penetration. In addition, financial education and an increase in comfort with financial products in rural areas through process simplification can make banking systems more effective in these areas. New, innovative products aimed at helping customers hedge inflation risk, such as inflation-hedged bonds, may be developed and made accessible through the wider banking network as an alternative to investment in gold.

**Easy availability of gold in physical form through banking or alternative channels.** There is a need to segregate gold demand for investment and gold demand for consumption purposes. This requires developing alternative channels to allow the purchase of gold for investment purposes. The supply of gold coins and bars can be made more easily available through banks so that investment demand can be fulfilled in this way rather than with jewelry. This can be done by increasing the number of bank branches that sell gold coins and increasing consumer awareness of gold coin availability, particularly in non-urban areas. In the longer term, jewelers can discontinue the sale of gold coins and bars. Also, allowing banks to buy back gold sold by them may further help in enhancing the liquidity of the gold sold and increase customer interest. It should be noted that gold coins sold in developed countries such as the United States are primarily sold by bullion dealers and special coin trading agencies. In Turkey, while a large number of coins are available through jewelers, an attempt has been made to bring this under the purview of the banking system by introducing banking schemes such as gold checks, gold accumulation accounts, and ATM-based gold.

**Development of gold-based financial instruments.** Instruments that would limit the circulation of gold in the domestic gems and jewelry industry while providing returns corresponding to those provided by investments in physical gold would help shift investment demand from physical gold. The following schemes may be considered:

- **Gold-linked account.** Customers invest in gold-backed financial instruments and the bank buys equivalent gold in international exchanges (see figure 41 on page 47). On redemption, the customer receives the mark-to-market value of gold, while the bank sells off the gold held in international exchanges, thereby limiting the need for domestic circulation of gold.

- **Gold accumulation account.** This is an account similar to any savings account in a bank, but savings are accumulated in gold units. The balance accumulation is done in terms of gold volume, and redemption is based on the current market value of gold. This enables investors to invest in gold in banks without the need to have physical possession of gold.

- **Gold pension plan.** These plans involve the sale of gold by individuals in exchange for periodic pensions until death. This helps bring idle gold into banking systems by providing a strong financial incentive.

Attempts could also be made to make gold-based financial products already available in the market, such as gold ETFs and e-gold, more popular by introducing fiscal benefits and lower transaction fees.
Providing alternative investment options could lead to a decrease in investment demand for gold. Investment demand for gold as jewelry could potentially fall from INR 130,000–140,000 crores (business as usual scenario) to INR 110,000–120,000 crores and demand for gold as bars and coins could fall from INR 180,000–190,000 crores (business as usual scenario) to INR 135,000–145,000 crores by 2018. This would lead to a reduction in imports by a similar range of around INR 60,000 crores, equal to 8 to 9 percent of imports needed for business as usual in 2018.

**Offer easy financing options**

The industry has historically faced issues around easy, low-cost financing. While there has been a gradual shift toward a more organized industry, resulting in better financing, the unavailability of gold metal loans is again creating difficulties, leading to an increase in working capital funding requirements for jewelers. Though this has reduced the amount of extra inventory held by jewelers, it has also increased pressure on jewelers to fund their working capital requirement. In addition, the lack of low-cost capital encourages cash transactions and trade through unofficial channels. There is a need to provide low-cost financing options while incentivizing transparency.

**Re-introducing gold (metal) loans**

The gold (metal) loans need to be made available to domestic jewelers. This is vital for the success of the gold deposit schemes (GDS) since it would enable banks to give out the gold collected through GDS back into circulation. Also, because the tenure of the gold deposit scheme is higher compared to the tenure of gold (metal) loans, there is a need to assess the possibility of a higher tenure for gold (metal) loans than the current 180 days. The scheme structure and implementation of gold (metal) loans has to be consistent across banks.

**Developing innovative financing options**

Globally, jewelry retailers have access to low-cost and secured finance options such as asset-based lending, where inventory serves as collateral for revolving credit. Advance rates are applied to the value of assets. There is inventory-based financing, with advances up to 75 percent, and accounts receivable-based financing, with advances up to 90 percent. This benefits banks as they
get security against their financing and greater transparency of transactions through ongoing monitoring of the collateral. The industry also gets benefits:

- Cost-efficient alternative to finance rapid growth and expansion of business
- Greater flexibility and borrowing capacity
- Overall improvement of the health of the industry by encouraging greater transparency

**Increasing credit penetration in the industry**

The gems and jewelry industry and banks need to work together to increase credit penetration in the industry. For these initiatives to be successful, banks will need to ensure competitive rates, easy accessibility, higher flexibility, and sustained awareness of funding schemes. The industry will also need to ensure a strong credit rating and repayment track record to enable financing from banks or other financial institutions. Better organization will further help the industry in this regard.

One major impact of higher transparency is an increase in the share of organized retail. The industry can target around 30 to 35 percent penetration of organized retail by 2018 from the current level of around 20 percent.

**Improve perception of industry opaqueness**

Over the past decade, the industry has seen a considerable increase in the share of the organized sector. However, it still suffers from a perception of opaqueness due to a large fragmented part of the industry. As a result, there is a need to adopt best practices and processes that would enable it to increase transparency. Some options include the following:

- **Better internal processes.** This could include increased documentation using radio frequency identification (RFID) tracking and enterprise solutions to enable a seamless flow of information.

- **Higher discipline in financial reporting.** The industry needs to ensure higher compliance in areas such as declaration of income and tax payments, particularly for local and independent players, to improve the industry’s image.

- **Listing and registration of companies.** Given the high percentage of fragmented enterprises, an increase in the share of registered and publicly listed companies would also benefit the industry image. Even if companies don’t want to list on the stock exchanges, diligently sharing genuine information proactively with the Registrar of Companies will help.

- **Elimination of unofficial supply.** Eliminating the unofficial supply systems and measures that make these systems redundant will help the industry in terms of transparency. This will require the removal of import restrictions on gold to curb unofficial flows.

- **Enabling transparency at the customer end.** At the customer end, wider implementation of know-your-customer norms and hallmarking will increase transparency.

**Develop infrastructure and skills to cater to specific needs of consumption demand**

Indian consumers, with increasing awareness of fashion trends in developed markets, have become more demanding in their choice of jewelry designs. Over time, fashionable, light, and hollow jewelry will see growing demand. While the large organized players with sufficient scale and infrastructure have been able to successfully cater to the demands of the new age customers, small independent players have struggled.
There is a growing need to support independent players in upgrading their design and manufacturing capabilities to ensure they remain competitive. This will go a long way toward meeting the consumption demand for jewelry. Use of better infrastructure and advanced skills would make jewelry more of an adornment item with enhanced potential for value addition. In the long term, this would also drive consumers to focus more on product quality and design and less on the intrinsic gold value, making them more comfortable in paying premium for better designs. This could be achieved through the creation of shared facilities and collaboration among jewelers, and a sharper focus on skill development.

**Creation of shared facilities**

Shared facilities in big jewelry clusters could facilitate the adoption of new technologies in the design and manufacture of jewelry among small independent players and also help improve the working conditions in the industry. In addition, a collaboration of small independent jewelers could source designs from their global counterparts and indigenize them to meet the local preferences. Currently, there are 10 to 15 major clusters of jewelry manufacturing around Jaipur, Surat, Mumbai, Coimbatore, Thrissur, Hyderabad, Nellore, Kolkata, Delhi, and Amritsar. Developing shared services facilities in these locations would be a good start.

Enhanced focus on skill development

Of the 2.5 million people employed by the industry, less than 5 percent are trained through diploma or vocational courses. Over the next five to seven years, 700,000 to 1.5 million people could be added to the workforce. Assuming 10 percent are trained through diploma and vocational courses, the industry needs a training infrastructure to address around one lakh new students during those years. Training existing employees will require further infrastructure improvements.

India’s skill development curriculum needs to be standardized and updated to reflect global standards. In the face of changing customer preferences, artisans should also be encouraged to upgrade their skills through formal training, using scholarships and fee subsidies. Skill-development institutes should collaborate closely with jewelers to ensure practical training.

The gems and jewelry industry in Turkey, having faced similar challenges around high fragmentation and low organization in the early 1990s, adopted measures to improve the level of value addition, organization, and transparency in the industry (see sidebar: Learning from the Transformation of the Jewelry Industry in Turkey on page 45).

Improving infrastructure and skill in the industry would impact the overall consumption demand for jewelry. There is potential for an increase in this demand from INR 370,000–390,000 crores to INR 390,000–410,000 crores in 2018, based on higher value addition-led premium pricing and higher share of organized retail. Also, there is a potential for an increase in exports from INR 150,000–160,000 to INR 240,000–250,000 crores in 2018, largely because of better designs, quality, and manufacturing. This would be equal to around 45 to 50 percent of the domestic jewelry market and would increase the total value added on jewelry manufacturing and retailing from approximately INR 140,000 to INR 165,000 crores in 2018.
These initiatives can have significant benefits for the industry (see figures 42 and 43 on page 51). Even if domestic jewelry demand were to remain the same, there are potential benefits in several areas:

- **Increased consumption demand for gold jewelry.** Higher value addition would result from superior designs and quality, and improvements in infrastructure would lead to a greater share of the organized market. All of these would enable the industry to charge greater premiums, which in turn would lead to an increase in the market size of consumption demand for jewelry.

- **Reduced investment demand.** Initiatives targeting a wider presence of and greater access to alternative financial options will eventually lead to a decrease in investment demand for gold.

- **More exports.** Initiatives undertaken to improve infrastructure, innovation, and skill would lead to greater competitiveness in the exports market.

- **Greater value addition.** There would be higher value addition by the overall industry through design and manufacturing-led innovation. Also, higher exports would lead to an increase in value addition.

- **Lower impact on imports.** There would be greater recycling of domestic gold, which would lower the burden on gold imports. Also, a decrease in investment demand would help overcome the import burden. These would also offset the increase in imports for catering to higher exports.

- **Bigger share of organized retail.** Initiatives to improve infrastructure and higher transparency in the industry would lead to a higher share of organized retail.

- **High employment generation.** A healthy growth in domestic and exports market size will help create more employment.

The Way Forward

The previous two sections highlight the challenges that the gems and jewelry industry is facing, along with possible solutions. The road will not be easy. The goal of ensuring sustainable industry growth to enhance value addition, employment, and exports without impacting the current account deficit (by increased imports) requires a concerted effort by all stakeholders, including the gems and jewelry industry, government, and RBI. Several priority initiatives are needed to reach this target:

**Role of industry**

- **Develop infrastructure and skills to cater to the specific needs of consumption demand.** Focus on collaboration and the creation of shared facilities in the major jewelry manufacturing hubs of Jaipur, Surat, Mumbai, Coimbatore, Thrissur, Hyderabad, Nellore, Kolkata, Delhi, and Amritsar to take advantage of modern technology. Skill development is also a priority, as is the availability of infrastructure to provide vocational training to one lakh students over the next five years.

- **Remove perception of opaqueness.** Progress has been made in this regard with a significant increase in share of the organized sector but greater transparency is required. Strict implementation of know-your-customer norms and hallmarking will help improve transparency on the customer end.
India’s jewelry industry has a wealth of potential

Total jewelry and bars and coins market scenarios (INR ‘000 crores)

![Diagram showing market scenarios]

Sources: World Gold Council, Gold Fields Mineral Services, industry interviews; A.T. Kearney analysis

The benefits of transforming India’s jewelry industry

<table>
<thead>
<tr>
<th>Metric</th>
<th>2012 Baseline</th>
<th>2018 Business as usual</th>
<th>2018 Constrained gold supply</th>
<th>2018 Post-transformation</th>
<th>Transformation impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports¹ (INR ‘000 crores)</td>
<td>306</td>
<td>660–680</td>
<td>450–460</td>
<td>620–630</td>
<td>Including increase in gold imports catering to approximately INR 90,000 crores export increase</td>
</tr>
<tr>
<td>Gold recycling (percent of domestic demand)</td>
<td>-20%</td>
<td>-20%</td>
<td>-20%</td>
<td>-40–45%</td>
<td>9–10 percent decrease in imports from business as usual</td>
</tr>
<tr>
<td>Employment (millions)</td>
<td>2.5</td>
<td>3–4</td>
<td>2–3</td>
<td>3–4</td>
<td>500,000 to one million new jobs</td>
</tr>
<tr>
<td>Consumption market – jewelry (INR ‘000 crores)</td>
<td>177</td>
<td>370–390</td>
<td>190–210</td>
<td>390–410</td>
<td>Doubling of consumption demand from constrained gold supply case</td>
</tr>
<tr>
<td>Investment market – jewelry (INR ‘000 crores)</td>
<td>63</td>
<td>130–140</td>
<td>65–75</td>
<td>110–120</td>
<td>8–9 percent decrease in imports from business as usual</td>
</tr>
<tr>
<td>Investment market – bars and coins (INR ‘000 crores)</td>
<td>85</td>
<td>180–190</td>
<td>95–100</td>
<td>135–145</td>
<td></td>
</tr>
<tr>
<td>Exports¹ (INR ‘000 crores)</td>
<td>69</td>
<td>150–160</td>
<td>150–160</td>
<td>240–250</td>
<td>Exports equal to 45–50 percent of domestic jewelry demand and 40 percent of imports post-transformation</td>
</tr>
<tr>
<td>Value addition – jewelry (INR ‘000 crores)</td>
<td>68</td>
<td>135–145</td>
<td>65–70</td>
<td>160–170</td>
<td>More than doubling of value addition from constrained gold supply case</td>
</tr>
<tr>
<td>Percent share of organized retail</td>
<td>-20%</td>
<td>-25%</td>
<td>-22%</td>
<td>30–35%</td>
<td>Doubling of share of organized retail</td>
</tr>
</tbody>
</table>

¹ Gold and gold jewelry only
² If import restrictions are removed
³ Including higher premium, higher recycling of gold, lower investment demand, and higher exports
Source: A.T. Kearney analysis
Enable use of better financing options. Ensure a strong credit rating and repayment track record to enable financing from banks or other financial institutions; steady movement toward higher organized trade will further help. Work with financial systems to increase credit penetration of the sector.

Encourage recycling of gold. Educate customers about initiatives such as the gold deposit plan to improve recycling and work toward achieving a target of 40 to 45 percent recycling from a current value of around 20 percent.

Role of the government

Support industry in infrastructure and skill development. Play the role of enabler by providing adequate thrust for skill and infrastructure development through incentives, subsidies, facilitation of land allocation, and supply of utilities.

Enable transparency improvement for the industry. Provide incentives for higher transparency.

Provide differentiated regulation for consumption and investment demand. Enable the consumption demand by reducing restrictions on gold supply (removal of the 80-20 regulation and high import duty), focusing on quality control (ensuring nationwide implementation of hallmarking in three years), and enabling easy financing, while simultaneously developing systems to cater to the investment demand through better regulations.

Enable alternatives to investment in physical gold. Take proactive measures to enable investment in alternative options for gold through better financial access and education, and supporting industry in the development of m-banking and UID-based platforms. In the long term, consider limiting the sale of bars and coins in jewelry shops.

Role of RBI and the financial sector

Monetize existing investment and recycling schemes. Develop innovative means to encourage better recycling of gold in order to meet the target of 40 to 45 percent recycling by 2018.

Provide better financing options to the industry. Work with the industry to ensure access to better financing, such as asset-based lending. Make gold (metal) loans available to domestic jewelers.

Provide differential regulations for consumption and investment demand. Ensure minimum restrictions to the consumption side of the demand for jewelry by easing regulations on imports and financing. At the same time develop a market for investment demand needs by introducing gold-based financial products and ensuring a higher share of this demand is met through financial systems.

Develop alternative investment options and supply infrastructure. Provide attractive alternative investment options, with better access to banks, including the use of platforms such as m-banking. Increase availability of gold coins and bars in banks and develop and promote gold-based financial products such as gold-linked accounts, gold accumulation accounts, and gold pension accounts.

In addition, industry associations and academia will have an important role to play—the former by driving consultations for policy making and highlighting the stakeholder needs, and the latter by focusing on innovation and capability building.
The industry plays a crucial role in the Indian economy by providing significant employment, earning substantial foreign exchange through exports, and contributing high value addition. With the coordinated efforts of all stakeholders it has even greater potential for growth—ushering in a new phase that will lead to an even greater contribution to the Indian economy.

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