

Gold destined to be insulated against odds

The \$40-billion gold & jewellery industry has reasons to be happy always. Five things reassure buyers like gold does – it has held across recessions, recession since the Great Recession. It is deeply entrenched in our culture and is a part of the Indian way of life. It is the tradition of the rich adorned with gold and mythological figures or a wedding or the coming of a child or just about any other milestone in life, the ceremonial or the practical role of gold jewellery. India was frequently known as a 'gold hoarder', and that is as much true literally as it was figuratively.

Our passion with gold knows no bounds, and is the cherished metal loved by businessmen and bankers alike. So little wonder that we are the world's largest consumer of gold with a share of 30% in global consumption consuming about 2000 tonnes in 2011. And not to miss the fact that gold imports alone account for 30% of the current account deficit of our country.

Rising developments, however, along with such strong factors favouring growth, there are some challenges as well. Over the last decade or so, gold has appreciated significantly and its impact was more significantly felt in the last two years or so when it appreciated at a CAGR of almost 20%. This was a surprising jump about every other asset class. The key factors that triggered the sharp increase in prices included higher demand, strengthening rupee and an effective and dependable anti-inflationary holding in the face of a sluggish global economy and weak Eurozone.

In fact, higher gold prices led to subdued demand, though the wedding and festive season did prop up the sales. One aspect was that though the volume of jewellery bought came down, its value did shoot up.



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Also, the higher prices led to a re-examination of demand for high-stroke or elaborate looking sets, and also gave a fillip to diamond jewellery. Not surprisingly, gold demand fell to five tonnes in 2012, the second consecutive year of decline. The fall in demand for jewellery can also be attributed to an increased demand for cars and real-estate, primarily as a hedge against inflation and economic uncertainty.

Post November 2012, gold prices resumed an upward and this was reflected in the hangar for the yellow metal – the demand rose by 27% to 236 tonnes during the January-March period. Though this may result in lower operating margins for retailers, consumer level it will enable us to fine-tune the quality to top up jewellery, thanks to the market and sharp correction in the prices.

Way ahead and opportunities: Gold is very deeply ingrained in our social, moral and cultural fabric, and is destined to be insulated against odds in the foreseeable future. The recent fall in the prices has resulted in the unbending of a wrong wave of

demand, and with an improving economy, it is likely to be sustained strongly.

Organised retail seems particularly interesting as it shows less than five or a low of 7% to a promising 10% in recent times. This is a result of the transparency of operations, that less segment offers, along with superior service and wider array of designs. The trend is likely to strengthen in the coming times as well. Another wave of opportunity lies in tapping the semi-urban and rural markets which account for 70% of the total consumption. Making way into sensitive markets should be therefore rewarding for the various players.

The jewellery export market presents another promising opportunity on account of the higher margins it offers. With India's expertise in the jewellery designing craft and availability of reasonably priced labour, efforts in this front promise to be well-rewarding.

Downside jewellery has traditionally lagged behind, but with their prices becoming more affordable and the gap between gold and diamond prices narrowing, this segment is looking up very well. The younger segment of the population is finding favour with it, and the heightened marketing attention given to this segment is only increasing the prospects.

As a result of all these efforts, the Indian gold & jewellery industry is expected to grow at a CAGR of about 16% between the five year period of FY11 and FY17.

(The author is Chairman of the Ferozeshah Mehta Trust (FMT) Group. The views expressed are personal.)