



## **Gold Jewellery Hubs Losing their traditional Luster to Organised Branded Retailers**

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### **ABSTRACT**

*Indian Gems and Jewellery Industry is one of the largest in the world. It contributes near about 29% to the global jewellery consumption. The sector is home to around 3,00,000 gems and jewellery players. Due to high faith in family jewellers (usually unorganised) that have been offering traditional jewellery at competitive prices over generations, this sector has come to be dominated by unorganised players holding about 70% of domestic jewellery market. But as a result of certain stringent regulatory measures taken by government like demonetization, Aadhaar linking, PAN card requirement, mandatory hallmarking, GST and also under the influence of various non regulatory measures like changing customer preferences, increasing urbanisation etc., the Indian jewellery market is moving on a structural path towards a formal economy. The trend of getting formalised is prompt in some sectors but shift from unorganised to organised jewellery retailers seems to happen at a comparatively slow pace. So, this paper makes an attempt to examine the growth and profitability of organised jewellery retailers under the impact of certain government initiatives and study the changing mindset of Indian consumer towards gold jewellery due to growth of branded jewellers. The research findings suggest that the organised retail jewellers are showing a positive trend so far as their net profits and return on capital employed are concerned and their share in market is expected to increase in the coming years.*

**Keywords:** Hallmarking, Regulatory, Demonetisation, GST, Organised Retailers

### **1. Introduction**

India's love for gold is timeless and deep rooted in our tradition and culture. It is universal across the length and breadth of the country. India's gems and jewellery sector contributes about 7% to India's GDP and 16% to India's total merchandise exports. The Indian government has permitted 100% FDI in Indian gems and jewellery sector under the automatic route. The Indian Retail Industry is divided broadly into two segments.

**Organised Retailing:** It refers to retailing undertaken by licensed players who have registered themselves for sales tax, Income tax etc. These include corporate backed hypermarkets, retail chains and privately- owned large retail businesses.

**Unorganised Retailing:** It includes traditional formats of low cost retailing for e.g. Owner manned stores, family shops etc.

Indian gems and Jewellery has historically been a preferred mode to accumulate illicit wealth. It has been notorious for cash dealings, evading taxes and impurity. Since 2016-17, this industry has been facing stringent norms introduced by government to bring this sector into the ambit of formal sector and to curb the shadow economy. As a result of certain stringent regulatory measures taken by government and certain other non-regulatory measures, the share of organised retailers has improved from 23% in 2016 to 30% in 2018 and is also expected to improve to 42% in the next five years by 2023.

### **2. Literature Review**

**Shankar, Isha and Shukla SK (2017)** in their paper titled "A study of gold jewellery market in India" have discussed the demand pattern for gold in Indian market and also examined the

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causes for rise in price of gold in India. They concluded that inspite of rising prices, the demand for gold in India is continuously increasing as it is highly liquid, an attractive investment avenue showing good returns has great religious significance and also great value as heirloom. Its price keeps on fluctuating as per the global market conditions, country's economic and political conditions and the changing consumer sentiment.

**Balaji, K and Maheshwari R. (2014)** in their paper titled "A paradigm shift in the buying behaviour of Indians towards Gold Jewellery – A Theoretical Approach with reference to the growth of Branded Retailers" have examined the nature of changes in Indian jewellery industry as a result of the growth of organised retailers and have also discussed about the opportunities for the growth of organised retailers in gems and jewellery industry with reference to Indian consumers. They have also suggested that to be successful in this industry understanding the changing consumer needs and behaviour would enable building trust.

**Shreedharan, N.V. (2017)** in his paper titled "A study on Jewellery and Gems Industry in India" has provided an extensive analysis and understanding about Indian gems and jewellery market. This study is based on certain case studies and reports published suggesting the increasing share of branded jewellers in the market over the forthcoming years. He has also made SWOT analysis of famous branded jewellers like TBZ, Gitanjali Jewels, Joy Alukkas, Tanishq and Rajesh exports and discussed about various strategies adopted by them to increase their hold in market.

**Thayumanavan, Kumaran and Moses Daniel (2014)** in their paper titled "Impact of Organised Jewellery Retailing on Unorganised Gems and Jewellery Retailing in Madurai District" have highlighted the increasing impact of effective strategies adopted by branded jewellery retailers on Indian consumer. They have also suggested the unorganised retailers to upgrade their outlets with latest designs and technology.

**Agarwal, Devgun and Bhatnagar (2017)** in their paper "A study on Problems faced by exporters of Gems and Jewellery Industry" discussed the status of the exports of Indian gems and jewellery Industry and also attempted to highlight the problems faced by the exporters and also suggested certain measures to overcome those hurdles.

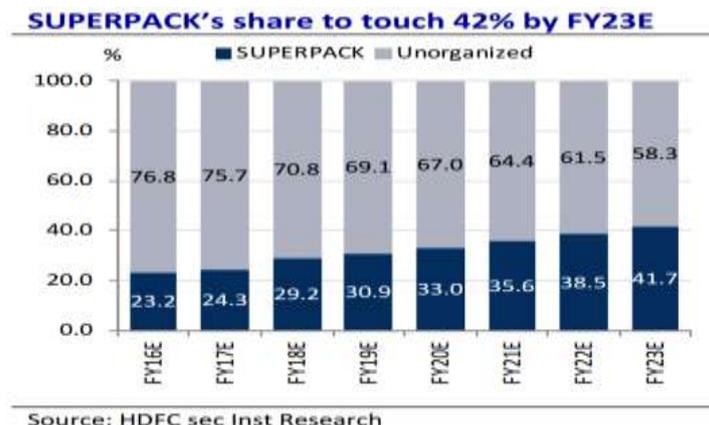
**Rajan Reshmi (2018)** in her paper titled "An investigative study on export performance of gems and jewellery in India" has suggested a bright future of organised jewellery market in India due to increasing consumer consciousness towards trendy jewel designs especially among youngsters. The author has recommended certain measures and initiatives to be taken by Government of India to improve the future of this industry.

**ASSOCHAM** in its report "The Gems and Jewellery Industry, contributing to 'Make in India'" has discussed about the potential held by Indian gems and jewellery industry inspite of all the challenges faced by it and suggested some coordinated efforts to give the necessary boost to this industry.

**Motilal Oswal report** titled "The Big Leap to a Formal Economy (2017)" has analysed that over the last 15 years, due to rising urbanisation, change in consumer preferences, growing faith in bigger brands and due to certain government initiatives to control the shadow economy, the share of organised players in jewellery segment has increased from 10% to 30%. The top organised jewellery brands including Tanishq, PC Jewellers, TBZ Jewellers have worked on their strategies to gain significant part of market.

**ICICI direct.com** has submitted a research report on Titan Company (2017) in which it is discussed that the impact of demonetisation was greater for unorganised players due to higher proportions of cash transactions compared to the organised market. This has helped Titan Industries to increase their market share.

**HDFC Securities Institutional Research Report (2018)** on Indian Gems and Jewellery Sector has examined in detail the changing scenario of Indian Jewellery Market and has predicted a very bright future for organised retailers. It is predicted that top 17 organised jewellery chains will grab 42% share in the next five years by 2023. The competitive positioning of key jewellers has also been examined. Then the issue of margins of mom and pop jewellers due to hallmarking being squeezed has also been discussed.



SUPERPACK (17 organized jewellery chains that will grab ~42% share in the next five years)

### 3. Objectives of the Study

1. To examine the growth and profitability of organised jewellery retailers under the impact of certain government initiatives and
2. To study the changing mindset of Indian consumer towards gold jewellery due to growth of branded jewellers.

### 4. Research Methodology

#### Source of Data

The study is based on the secondary data sources. It is constructed with the help of published data and financials of reputed firms in gems and jewellery industry in Indian market through internet, journals, magazines, published reports, newspapers etc.

#### Sample Size

The study covers a sample of 11 firms of Indian gems and jewellery market. Out of these 11 firms, 8 firms are listed on both BSE and NSE while 3 firms are listed on BSE only (Narbada Gems and Jewellery, Palm Jewels and Uday Jewellers). We have considered only organised sector due to availability of data of these companies for all six years covered under the study(2014-19). Unorganised private jeweller firms are not taken as a part of sample study due to non availability of their financial data for the same period. The sample selection has been made rationally and it consists of market leaders like Titan Company, Tribhovandas Bhimji Zaveri(TBZ) and Thangamayil Jewellers to give a better view of the market holding position of organised jewellers.

#### Period of study

The Period of the study is covered from 2014 to 2019 divided equally into two segments covering a range of 3 years each. This period of time has been taken to make a comparative analysis of the impact of certain government initiatives like mandatory PAN card requirement, levy of excise duty of 1% on gold jewellery, hallmarking gold jewellery, demonetisation (2016) on financials of organised jewellers.

## Statistical Tools and Techniques

The financials of jewellery retailers have been analysed by calculating CAGR (Compound Annual Growth Rate) of net profits and net sales figures and t-test is applied to compare the difference in growth rate over two periods ie. 2014-16 and 2017-19. Also ROCE (Return on Capital Employed) values have been analysed to examine the profitability of gems and jewellery industry.

### 5. Results Analysis

**Table 1: Compound Annual Growth Rate of Net profits**

Name of Company	CAGR (NP) 2014-16	CAGR (NP) 2017-19
Kanani Industries	0.357	0.135
Lypsa Gems & Jewellery	-0.277	0.043
Narbada Gems and Jewellery	0.050	0.817
Palm Jewels	-0.625	0.651
PC Jewellers	0.040	-1.187
Renaissance Globals	0.073	-0.045
Thangamayil Jewellers	-1.943	0.294
Titan Company	-0.020	0.217
Tribhovandas Bhimji Zaveri(TBZ)	-1.749	-0.062
Uday Jewellers	0.321	0.390
Zodiac JRD MKJ	-0.557	0.077

**Source: Author's Calculations**

The comparison of CAGR(NP) between two periods presented in table I reveals that Net Profit figures of 8 out of 11 companies have improved after the government has taken some stringent measures to control shadow economy. Also, five companies namely Lypsa gems and jewellery, Palm Jewels, Thangamayil Jewellers, Titan Company and Zodiac JRD MKJ have improved significantly as they have shown positive returns while they were giving negative returns from 2014 -16.

On applying t-test on the above figures of CAGR (NP) of these 11 industries over these two period of time, we find the following results:

**t-Test: Two-Sample Assuming Unequal Variances**

	Variable 1	Variable 2
Mean	-0.394	0.121
Variance	0.615	0.266
Observations	11.000	11.000
Hypothesized Mean Difference	0.000	
Df	17.000	
t Stat	-1.819	
P(T<=t) one-tail	0.043	
t Critical one-tail	1.740	
P(T<=t) two-tail	0.087	
t Critical two-tail	2.110	

**Source: Author's Calculations**

Comparison of Mean CAGR(NP) over two periods reveals that it has improved from -0.394 to 0.121. This difference in the growth of net profits is significant at 5% level. Thus, the results support our objective that initiatives taken by government in recent years to control black economy have favoured the growth of organised sector in gems and jewellery industry.

**Table 2: Compound Annual Growth Rate of Net Sales**

Name of Company	CAGR (Sales) 2014-16	CAGR (Sales) 2017-19
Kanani Industries	0.063	0.018
Lypsa Gems & Jewellery	-0.204	-0.084
Narbada Gems and Jewellery	-0.067	0.519
Palm Jewels	0.552	0.965
PC Jewellers	0.109	0.011
Renaissance Globals	0.052	0.046
Thangamayil Jewellers	0.021	0.037
Titan Company	0.008	0.144
Tribhovandas Bhimji Zaveri(TBZ)	-0.031	0.012
Uday Jewellers	0.159	0.176
Zodiac JRD MKJ	-0.086	-0.063

**Source: Author's Calculations**

As presented in table II, the leaders of gems and jewellery industry like Titan Industries and TBZ have shown major improvement in their turnover. The CAGR(Sales) during the period 2014-16 was 0.008 for Titan Company which increased to 0.144 during 2017-19. In the case of TBZ, it has increased from -0.031 to 0.012.

On applying t-test on the above figures of CAGR (Net Sales) of these 11 industries over these two period

of time, we find the following results:

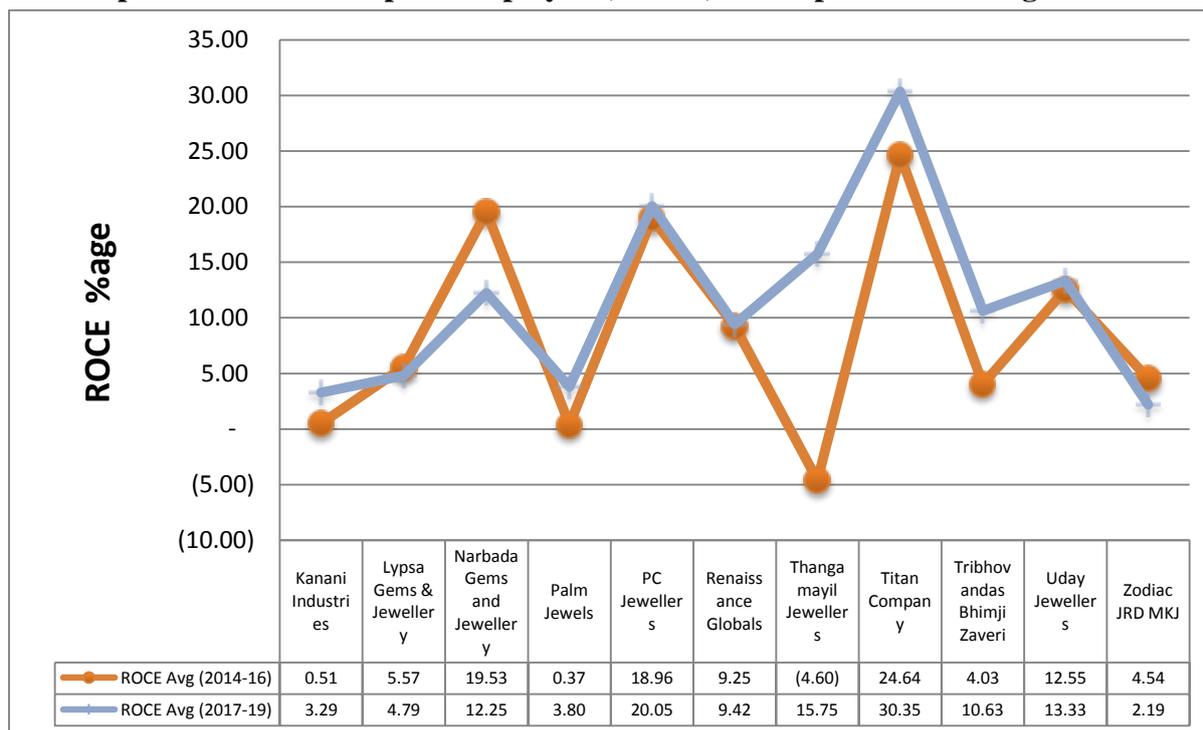
**t-Test: Two-Sample Assuming Unequal Variances**

	<i>Variable 1</i>	<i>Variable 2</i>
Mean	0.052	0.162
Variance	0.037	0.097
Observations	11	11.000
Hypothesized Mean Difference	0	
df	17	
t Stat	-0.989	
P(T<=t) one-tail	0.168	
t Critical one-tail	1.739	
P(T<=t) two-tail	0.336	
t Critical two-tail	2.109	

**Source: Author's Calculations**

Comparison of Mean CAGR(Net Sales) over two periods reveals that it has improved from 0.052 to 0.162. This difference in the growth of net profits is however not significant at 5% level.

**Graph 1: Return on Capital Employed (ROCE) of sample firms during 2014-19**



The above graph showing ROCE(Return on Capital Employed) of our sample jewellers over the covered time horizon reveals that 8 out of 11 companies have shown improvement in their ROCE. Thangamayil Jewellers have improved significantly. They were showing -4.60 % of ROCE during the period 2014-16 while they gave 15.75% of ROCE during 2017-19.

On applying t-test on the above figures of average ROCE of these 11 industries over these two period of time, we find the following results:

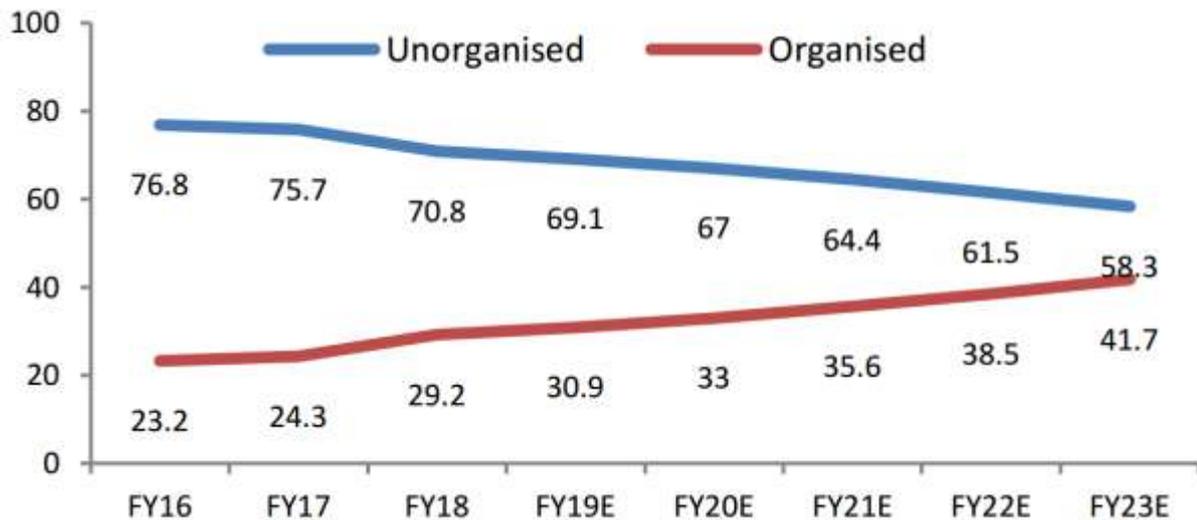
**t-Test: Two-Sample Assuming Unequal Variances**

	Variable 1	Variable 2
Mean	8.668	11.441
Variance	85.420	71.376
Observations	11.000	11.000
Hypothesized Mean Difference	0.000	
df	20.000	
t Stat	-0.735	
P(T<=t) one-tail	0.236	
t Critical one-tail	1.725	
P(T<=t) two-tail	0.471	
t Critical two-tail	2.086	

**Source: Author’s Calculations**

Comparison of average ROCE over two periods reveals that it has improved from 8.668 to 11.441. This difference in the growth of ROCE is however not significant at 5% level.

As per Dalal & Broacha Report on Titan Company Ltd. (January 18, 2019), the share of the organised sector is improving in recent years and is expected to grab more and more market share from unorganised jewellers if this trend continues. It is clearly visible in the graph shown below:



Source: Dalal & Broacha Report on Titan Company Ltd. (January 18, 2019)

So, Our research findings are also supported by above graph.

### Regulatory Measures supporting Organised segment of Jewellers in India

Since 2016-17, this industry has been facing stringent norms introduced by government to bring this sector into the ambit of formal sector and to curb the shadow economy. Some of them are:

- Demonetisation (2016) of high value currency notes has generated a sense of fear among the traditional unorganised family jewellers, as majority of the transactions in this sector were unaccounted and cash based. Also in the recent budget announcements, the cash transaction limit above which obtaining the buyer's identity proof /PAN card is mandatory has been reduced to Rs. 2 lakhs which can further be reduced.
- Government at present is promoting and giving huge push to digital payments. The organised retailers have an edge over the unorganised family jewellers (who prefer cash dealings) .
- Ecommerce boom has also helped the organised players in revolutionising their distribution reach and thus spurred demand for their products.
- In the GST regime, conversion to organised in the B2B chain is relatively easy and smooth as compared with B2C chain as in the later, end users will not get any direct advantage for being part of organised chain. In industries like Gems and Jewellery, there is a small B2C chain of supply. The jewellery manufacturers source raw material (gold, diamonds and other gem stones) and sell their end products to retail customers via family jewellers. All participants in jewellery value chain can manage to remain outside the platform of technology and stay outside the formal chain. The retail buyer may not get identified under GST (as individual customers don't need GSTN registration. Infact, higher GST rates may further prove to be slight disincentive to enter into formal zone. However, under GST regime, dip in transit time due to elimination of multiple check points and consolidation of warehouses will help in lowering the logistics cost which will help PAN-India organised Players to get an edge in competition from regional or local players who are at an advantageous position so far as transportation costs are concerned.
- Also the government's increased focus on improving ease of doing business in India and thereby introducing reforms like single window clearance, higher FDI, tax

reforms, better infrastructure , booming ecommerce are helping in setting up of more and more businesses and start-ups in the organised sector.

- Hallmarking gold jewellery may soon become mandatory. The unorganised players lag behind their peers in this aspect also. Hallmarking has also squeezed the margin of mom and pop jewellers .
- The levy of excise duty of 1% on gold jewellery was also favourable for organised sector as due to this change, jewellery industry came under the purview of excise law and undeclared stocks of gold jewellery with unorganised jewellers will be cracked down.

### **Non Regulatory Measures supporting Organised segment of Jewellers in India**

- Increasing Urbanisation, Nuclearisation of Indian Families and rise in per capita income of Indians
- Women empowerment and increasing number of working women in India who prefer to wear trendy, light weight and contemporary jewellery with latest designs in which organised retail chains have an edge over unorganised jewellers
- Rising middle class and their attraction and carving for branded products
- Superior strategies of organised jewellers like significant store expansion, opening of large format destination stores, better gold hedging policies compared to unorganised jewellers.
- Banking on trust factor which organised jewellers have built through adopting ethical practices voluntarily like mandatory hallmarking
- Assured resale value and continuous offer of discounts on making charges by organised jewellers and improved transparency in their practices.
- Sponsoring fashion events to increase brand visibility

### **6. Conclusion**

A highly prevalent unorganised segment , flourishing by circumventing laws and government regulations, has for long been a challenge for organised businesses to face. The unorganised jewellers enjoy unfair competitive advantage enabling them to offer products at much lower prices vis-a vis organised players. However, the stage has been set for the tables to turn and the baton to pass to the organised segment under the influence of various policy initiatives taken by government to curb black money menace. These reforms , supported by booming e-commerce, an expanding aspirational middle class and increasing urbanisation, offer a ground for the growth of organised segment of jewellers . Due to an increasingly regulated environment in a historically unregulated industry, organised players stand to gain from increasing compliance requirements due to unorganised players' inability to cope. This is particularly unique to this industry due to the nature of participants who are largely uneducated, running family businesses. However, the rate of growth of organised segment in jewellery market is comparatively gradual as compared to other sectors. Further, with the entry of huge organised players, The market has become additional competitive. Consumer is getting interested in brand values. This battle between the organised and the unorganised players is expected to get more intense in the coming years.

**Scope for research:** By increasing the sample size and the sample period, further study can be made in this direction. Also, more parameters can be added to analyse the growth and profitability of organised players in the coming years.

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