India is the world’s largest manufacturing center of cut and polished diamonds for the last many years, contributing 60% of the world’s supply in terms of value, 85% in terms of volume and 92% in terms of pieces. This report aims to find the key happening in this industry and analyze the present opportunities, challenges and way forward for the industry.
About The Author

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Executive Summary

India is the world’s largest manufacturing center of cut and polished diamonds for the last many years, contributing 60% of the world’s supply in terms of value, 85% in terms of volume and 92% in terms of pieces.

The diamond jewelry market had a growth rate of 4-6% in India in the last 5 years backed by the continuing economic upturn, GDP growth and an increase in the disposable income growth rate. The size of the industry is 6000 crore rupees.

The value chain of diamond jewelry production involves rough diamond extraction from mines and selling them, cutting and polishing of those rough diamonds and trading them to jewelry manufacturers for jewelry making followed by retail sales of those jewelries. India is a leading player in cutting and polishing segment of the value chain. The midstream of the diamond value chain is less profitable segment but opportunity lies in the sheer market share that India currently has in C&P.

The millennial — represents a compelling opportunity for the diamond industry. By the end of 2015, there were around 900 million people in China, India and the US with a combined gross income of approximately $8 trillion. Millennial in the US prefer the use of the internet for jewelry purchases; in India, millennial tend to prefer department stores. In India, the millennial are likely to seek family advice before buying.

Over the years, India, with its significantly lower labor costs and its fast and easy adaptation to new technology, has eaten into the chunk of the Israeli business. Also, Alrosa signed a three-year agreement with Diamond India, to supply rough diamonds. The deal secured a direct source of supply for local diamond companies.

The industry’s sensitivity to the government policies remains moderate to high. Being a significant foreign currency earner for the government, the CPD industry enjoys zero duty in terms of rough procurement. Also, the Indian Government has supported the Indian Gems and Jewelry sector with policies such as waiver of customs duties on the import of rough diamonds and establishment of Gems and Jewelry SEZs, etc. Also, The Government of India has allowed 100 per cent foreign direct investment (FDI) in gems and jewelry industry through the automatic route.

The long-term outlook for the global diamond market remains positive on the back of strong fundamentals in the US and the continued growth of the middle class in China and India. In India as well, the rising disposable incomes, changing consumer preferences more in favor of modern retail and impulse buying make for an environment which is conducive for growth and expansion plans.

The sector is also set to benefit from various flagship programs of the Government of India such as ‘Make in India’ as it will give a boost to manufacturing in the sector and enhance the quality of the manufacturing practices to bring it on par with the international standards.
Diamond industry – Brief Overview

Size and Growth rate of the Industry –
India is the world’s largest manufacturing center of cut and polished diamonds for the last many years, contributing 60% of the world’s supply in terms of value, 85% in terms of volume and 92% in terms of pieces. The diamond jewelry Market had a growth rate of 4-6% in India in the last 5 years backed by the continuing economic upturn, GDP growth and an increase in the disposable income growth rate. The size of the industry is 6000 crores rupees.

Key Segments of the Diamond Industry

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Table number 1- Key segments (Diamond Industry)

Industry Trends

- The diamond industry witnessed growth in 2016 continuing over a period of growth from 2012.
- The millennial — represents a compelling opportunity for the diamond industry. By the end of 2015, there were around 900 million people in China, India and the US with a combined gross income of approximately $8 trillion. Millennial in the US prefer the use of the internet for jewelry purchases; in India, millennial tend to prefer department stores. In India, the millennial are likely to seek family advice before buying.
- Over the years, India, with its significantly lower labor costs and its fast and easy adaptation to new technology, has eaten into the chunk of the Israeli business.

The size of the Diamond Industry in India is 6000 Crore rupees.
Cutting and polishing segment represents the traditional competitive market with low entry barrier and a large number of players. Low bargaining power and scarce cash flows often determine trading behavior and profitability of the midstream players.

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<tr>
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<th>Rough Diamonds</th>
<th>Cutting and polishing</th>
<th>Jewelry Manufacturing</th>
<th>Retail Sales</th>
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<tr>
<td>Number of players</td>
<td>Top 5 player control 70%</td>
<td>~ 5000 players</td>
<td>&gt;10000 players</td>
<td>Large retailers control 35% of the market</td>
</tr>
<tr>
<td>Entry barrier</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Bargaining powers</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
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The diamond cutting industry in India can be still considered an unorganized sector. Surat alone houses 72% of all the processing of diamonds produced in the country and alone employs about 700,000 workers. Surat along with Navsari, Bhavnagar, Amreli are known as the diamond manufacturing/processing hub whereas Mumbai is the diamond trading hub.
**Major Government Initiatives**

- The industry’s sensitivity to the government policies remains moderate to high. Being a significant foreign currency earner for the government, the CPD industry enjoys zero duty in terms of rough procurement. Also, the Indian Government has supported the Indian Gems and Jewelry sector with policies such as waiver of customs duties on the import of rough diamonds, permission for personal carriage of jewelry through Hyderabad and Jaipur Airport as well, in addition to Delhi, Mumbai, Kolkata, Chennai and Bangalore, establishment of Gems and Jewelry SEZs, etc.

- Government’s proposal to extend Pradhan Mantri Kaushal Kendras to more than 600 districts across the country, from the 60 districts at present, will help in creating skills for the gems and jewelry sector as well. It will help in improving the quality and the market relevance of vocational training to students and labors which will also benefit the jewelry industry.

- Govt. of India unveiled the Foreign Trade Policy (FTP) that will be in effect for the next five year term, 2015 to 2020. It aims at supporting services and exports and would boost the "Make in India" initiative. The policy provides the impetus to boost exports and offers a critical regulatory framework for the proposed Special Notified Zone (SNZ).

- There is proposal to reduce income tax for smaller companies with annual turnover up to Rs 50 crore to 25 per cent. It will encourage medium to small jewelry exporters and manufacturers.

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**Table number 3 – Major hubs in India**

- **Surat** in Gujarat is the world’s major diamond processing center.
- **Mumbai** in Maharashtra is the center for machine made jewelry. The city is also India’s largest wholesale market in terms of volume.
- **Jaipur** in Rajasthan is a key center for polishing precious and semi-precious gemstones both natural and synthetic, carving, bead-making, stringing.
- **Delhi** and its neighboring states are famous for manufacturing silver jewelry and articles.
- **Kolkata** in West Bengal is popular for its lightweight plain gold jewelry. This category of jewelry finds a large market in Tamil Nadu.
- **Belgaum** in Karnataka and Nellore together, specialize in studded jewelry using synthetic or imitation stones.
- **Trichur** in Kerala is another source for lightweight gold jewelry and diamond cutting.

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• Although as much as 85 per cent of total rough diamonds of the world are polished in the country, only 15 per cent of them are imported directly, the rest being bought by middlemen. To counter this, Bharat Diamond Bourse was established in Mumbai. It will ensure steady supply of rough diamonds. Bharat Diamond Bourse will help the industry create a new face for the diamond industry in India.

• In the past 10 years (2006-16), Indian market has tripled itself to 22000 crore rupees. Rising income and aspirations among Indians has led to increase in the demand for diamonds.

• Organized by the Gem and Jewelry Export Council (GJEPC), the second edition of Diamond Detection Expo & Symposium (DDES) started in Surat. GJEPC will install detection machines at the council's office, which traders can use free of cost. This will help the manufacturers and traders to detect the fake diamonds present in the market.

• The Government of India has allowed 100 per cent foreign direct investment (FDI) in gems and jewelry industry through the automatic route.

• In order to encourage more investments in the sector, gems and jewelry SEZs have been set up of four are operational in Maharashtra, West Bengal, Rajasthan and Andhra Pradesh. Further, formal approval has been given to 13 SEZs in the sector.

• According to economic survey of 2017, Economic growth to expected to rebound to 6.75 to 7.5% in 2017-18. The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, and healthy savings and the demand for diamonds has tripled itself in the past decade owning to these factors. This provides a good opportunity for the SMEs in India to tap the potential.
Challenges

- The Chinese government has begun to initiate multi-billion dollar deals for rough diamonds in exchange for things that China produces like medicines, oils, and industrial goods and services. Also, China’s investment in Africa is a large threat to the Indian diamond cutting and polishing industry.
- There is a growing preference for polishing diamonds in countries where the diamonds are mined, like in Africa. It means that the Indian sector will have to face problems at home because India is not a large producer and therefore has to import rough diamonds from Africa.
- Low profit margins in the cutting and polishing segment have heightened midstream players’ interest in synthetic diamonds, but synthetics have to date gained only limited acceptance among jewelry retailers and end consumers.
- Rio Tinto shut down its Rs 2,200-crore diamond mining project in Madhya Pradesh (MP). Once developed, the Bunder diamond mine was expected to place MP in the top ten diamond producing regions of the world. But Rio Tinto could not develop this mine due to troubles it faced because of the environmental challenges involved in developing that mine.
- The recent policy of demonetization caused a little roadblock for the Jewelry sector and affected the small and medium enterprises, the industry has been back to normal and the future outlook seems positive economically.
With the support in the form of increasing urbanization, middle-class expansion and the rock's appeal as engagement rings, India is set to emerge as the third-largest market for diamond jewelry by 2020, leaving behind Europe and Japan. Meanwhile, China and the US are expected to remain as the leading diamond jewelry markets.

The long-term outlook for the global diamond market remains positive and 2% to 5% yearly growth on a long-term basis is expected on the back of strong fundamentals in the US and the continued growth of the middle class in China and India.

In India as well, the rising disposable incomes, changing consumer preferences more in favor of modern retail and impulse buying make for an environment which is conducive for growth and expansion plans.
About Sookshm

Aiming to Achieve Growth through CREATIVITY & INNOVATION

We believe that there is always a better way to manage a business.
At SOOKSHM, we are reinventing the way Businesses

Think, operate and grow.

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Our vision is to be India’s leading advisory in Business Consulting for Indian Business Houses

We seek to develop systems to help Businesses work more efficiently, thereby raise themselves to World Class Business Institutions.

In the next 5 years, we wish to impact 1000 businesses, hand holding them in their journey towards Business Excellence.

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• Organizational Redesigning
• Technology in Business