

Indian Diamond Industry: The Recovery Options

The Gem & Jewellery Export Promotion Council (GJEPC) has been organising a series of webinars on a variety of topics for a cross-section of audiences in recent times.

One of the recently held webinar was on “Indian Diamond Industry: The Recovery Options”. It featured Chaim Even Zohar, eminent industry journalist and analyst, playing a central role. Chaim was accompanied by industry stalwarts from leading companies like Dinesh Lakhani (Kiran Group); Hitesh Patel (Dharmanandan Diamonds); Vipul Shah (Asian Star and incumbent Vice Chairman of the GJEPC) and Russell Mehta (Rosy Blue). The session was moderated by GJEPC’s Diamond Panel Convener Sanjay Shah.

Covid-19 has snowballed into an unprecedented calamity and India, the world’s largest manufacturing cutting and polishing hub, has been reviewing and taking stock of the situation, contemplating, and implementing measures to adapt and adopt new ways of doing business.

The collective initiative in the form of suggestion by Indian diamond industry to impose a month-long self- disciplined moratorium on rough diamond imports is the first step to ensure that the supply-chain pipeline is not overburdened.

Here are some of Chaim’s key points and takeaways for Indian manufacturers:

- Over 30 years, rough sales have gone up, but the diamond content in jewellery at retail has remained the same. Though money is being made from high turnover and greater production, the midstream value addition has remained constant at only \$5 billion.
- India has a monopoly in cutting and polishing diamonds, so it should have more leverage and power over pricing.
- Producers have long considered diamantaires to be merely their distributors and dealers. And so, in a crisis, it is always the manufacturer who will go bankrupt.
- A recent Bain & Co. report shows mines are earning about 19-21% operating margin; retailers about 20%, and midstream is anywhere between -3% and +2%, despite taking the maximum pipeline risk. So, what’s the return on capital?
- The midstream should not go back to the status quo post corona because it was not making money.

- Use corona as a turning point and be more united. Leverage the industry's strength, and if industry does, it will be the most powerful segment of the pipeline. The midstream is taking a huge risk, it doesn't know what the polished demand will be in the market. The midstream needs to make more profit because it's them who is taking most of the risk.
- Post corona, there may be a short-term pent-up diamond jewellery demand for postponed weddings. The industry will see a flare of activity, but this will not translate into a renewed replenishment from cutting and trading centres, certainly not immediately.
- This industry has come out of every crisis more resilient, this time it will take much longer to find the new normal, which could be about 20-30% below the pre-corona level in value terms.
- India realistically require a three-month moratorium on rough diamond imports. Voluntary curtailment will bear good results.
- No one knows what polished prices will be post corona, so don't overproduce. Be resilient and add value to the midstream.
- Don't compete with each other and don't undersell polished goods. Restore price stability, and stop being too fixated on manufacturing for volume. Nobody should sell at a loss.
- Change the mind-set and go for profit. Make it commercially viable since the industry has enough rough in India to last until end of 2020 – there is approximately \$2.5 billion worth of polished in the pipeline. Stop over producing and competing with each other to the point of bankruptcy.
- India will emerge stronger from this crisis – but focus on marketing, along with bodies like the GJEPC. Educate people, hold town halls and take marketing very seriously.
- The time has come that producers should share the financial burden by offering credit to manufacturers.
- Think about new, innovative marketing ideas, people are spending time productively – in 9 months there will a baby boom.

Views by panellists

- It's time to take positive action, and think of new ideas. The situation is volatile and complex. Retail demand may plummet 30-35%, so there might be a need to reduce manufacturing by minimum 50%.
- One could also get to see some dislocation in terms of polishing of diamonds of smaller lower quality diamonds.
- The industry is still riding on the success of the Oppenheimers' marketing strategies, which created a need for diamonds after the Great Depression. It's time to rediscover a new narrative.
- To raise capital, there will be some liquidation of inventory at certain prices – which will be short-term in nature.
- Solvency has not been an issue of the diamond industry, the industry has always settled debts. Payments will start to arrive in 1-2 months, once retail picks up.
- Better future for smaller diamonds with price points over certified diamonds.
- This pandemic is not industry-specific, and every country has offered some stimulus packages to soften the blow.
- Indian industry' total indebtedness to banks is not that high. (\$9.5 billion in 2020). The industry has paid back a lot of money to banks, and if the industry tides the next three months, the situation will be fine. Demand may be restored by 2021.
- Initially, there might be a 50% reduction in workforce. Retail this year may go down by around 20%.
- Produce to demand, don't overproduce, don't undercut each other.
- It is difficult to predict when we will all return to normal, but in the meantime, the Indian diamond industry needs to exercise self-discipline and take prudent business decisions.
- Demand will be a vital component to restart the industry's engines.