

Domestic jewellery consumption growth in value terms revised upward to 10-12% YoY in FY2024 due to rise in gold prices

Authors:

Mr Sujoy Saha, Vice President, ICRA Limited
Mr Raunak Modi, Senior Analyst, ICRA Limited

ICRA has revised upward its forecast of the year-on-year (YoY) domestic jewellery consumption growth (in value terms) for FY2024 to 10-12% from 8-10% estimated earlier, primarily driven by the rise in gold prices. Jewellery consumption is estimated to have risen by more than 15% YoY in H1 FY2024, aided by stable demand during Akshaya Tritiya and higher gold prices. However, ICRA projects the growth rate to moderate to 6-8% in H2 FY2024 due to sustained tepid rural demand amid persistent inflation.

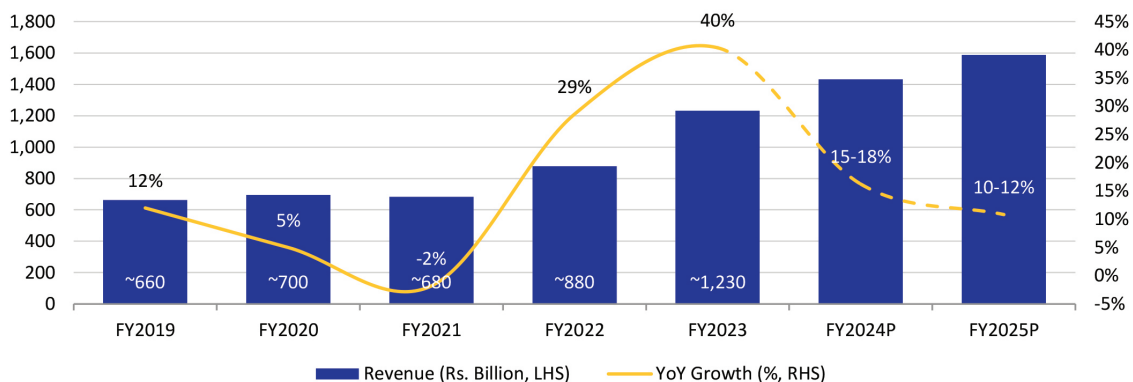
After remaining volatile between December 2022 and April 2023, gold prices were relatively stable in H1 FY2024, although the same rose ~14% compared with the average prices in H1 FY2023. The elevated price levels supported revenue expansion of most jewellery retailers amid muted volume growth. The recent tensions in the Middle East and the evolving global macro-economic environment could keep gold prices elevated in the near term. The spike in gold prices since early October 2023 and persistent inflationary headwinds remain key risks to demand.

ICRA's sample set of 14 large jewellers, which accounts for ~70% of the organised market, is projected to record a healthy revenue expansion of 15-18% YoY in FY2024 on the back of their planned retail expansion and a

gradual shift in consumer preferences towards branded jewellers. The organised jewellery retailers are expected to outperform the industry over the medium term, supported by tailwinds from accelerated formalisation of the industry.

As per ICRA's projection, the operating margins of the organised players are likely to witness some moderation in FY2024 owing to the front-loaded operating costs for planned store additions and increased advertising expenditure amid rising competition. Nevertheless, the benefits of economies of scale are likely to support the operating margins, which are estimated to hover in the range of 7.5-8% over the near-to-medium term. Despite the projected increase in the debt levels to fund the inventory for new stores, the debt protection metrics of ICRA's sample set of companies are estimated to remain comfortable.

The organised jewellers had recommenced their retail expansion in FY2023, after a brief hiatus in FY2021 and FY2022, with the store count of ICRA's sample set of jewellers estimated to have risen by more than 20% during the year. The momentum is likely to continue over the near-to-medium term with a likely increase in the store count by 18-20% YoY in FY2024, supporting their revenue growth.



Source: ICRA Research

