ICRA

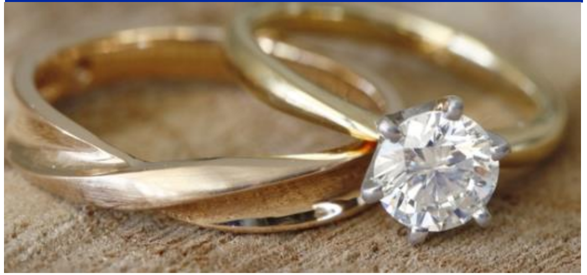
INDIAN CUT AND POLISHED DIAMOND INDUSTRY

CPD players' profitability to lose shine in FY2023; operating margin to drop by 75-100 bps due to moderation in demand and firm rough prices

SEPTEMBER 2022

What's Inside

1 Indian CPD price trends; global demand-supply scenario



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Executive Summary

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Indian CPD exports are expected to moderate to $22.0-22.5 billion in FY2023, reflecting a YoY contraction of ~8-10%. Coupled with elevated rough prices, this is expected to trim the operating profit margins (OPM) of Indian diamantaires by up to 75-100 bps from FY2022 levels to ~4.5%.

- Exports of cut and polished diamonds (CPD) from India recovered sharply in FY2022 and reported a decadal high figure of $24.3 billion. Demand recovery was led by pent-up demand, stimulus packages announced by the Government, improved economic outlook of key geographies and limited avenues for consumers to spend on other luxuries amidst pandemic induced restrictions.
- Polished diamond prices, after increasing sharply in Q4 FY2022 due to healthy demand and high rough prices, have started softening with a slowdown in demand. Demand moderation is expected to be more pronounced in smaller-sized diamonds (30 cents and below) compared to higher-sized diamonds (50 cents and above).
- Demand for CPD is expected to moderate in FY2023, driven by the high base of FY2022, inflationary pressures, unwinding of surplus liquidity globally and opening up of other spending avenues like travel/hospitality. ICRA expects Indian CPD exports to contract by ~8-10% in FY2023.
- Despite easing of Covid-19 restrictions, production of rough diamonds is unlikely to increase significantly in FY2023 and FY2024. Coupled with supply restrictions on account of sanctions on Alrosa, this is expected to keep rough diamond prices firm in FY2023 and FY2024.
- Moderation in demand leading to a softening in polished prices, which coupled with elevated rough prices, will adversely impact the profitability of CPD players in FY2023. ICRA estimates contraction in OPM of entities in its sample set by up to 75-100 bps from FY2022 to ~4.5%.
- Amid a slowdown in demand, inventory levels of CPD entities to increase in FY2023, though they will remain lower than pre-pandemic levels on account of the limited supply of roughs. This will keep their working capital debt levels under check, thereby keeping the credit profiles better than pre-Covid levels.

Analytical Contact Details

	Jayanta Roy	Priyesh Ruparelia	Sakshi Suneja	Rishabh Mundada
	Senior Vice-President	*Vice-President & Co-Group Head*	*Vice-President & Sector Head*	*Senior Analyst*
	jayanta@icraindia.com	priyesh.ruparelia@icraindia.com	sakshi.suneja@icraindia.com	rishabh.mundada@icraindia.com
	033-7150 1100	022-6169 3328	022 – 6169 3349	020 – 6606 9920

Business Development/Media Contact Details

	L. Shivakumar	Jayanta Chatterjee	Naznin Prodhani
	Executive Vice-President	*Executive Vice-President*	*Head Media & Communications*
Email	shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
Phone	022- 6114 3406	080 – 4332 6401	0124 – 4545 860

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Thank You!