MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The gems and jewellery industry is primarily classified into the segments - cut & polished (C&P) diamonds, gemstones, gold and diamond jewellery, pearl & synthetic stones & others which include precious metal jewellery (other than gold), synthetic stones and lastly costume fashion jewellery. Diamond studded jewellery accounts for the largest share of the global jewellery market, followed by plain gold jewellery.

The jewellery industry worldwide has grown steadily over the last few years. The world’s jewellery market is expected to grow at a CAGR of over 5% over the next five years. The global market for jewellery is expected to surpass USD 257 Billion in revenues by 2017. Regionally, Asia Pacific holds the largest jewellery market in the world with more than half of the share being contributed by India and China alone. India and China are also the two largest gold consumers in the world followed by the Middle Eastern region.

(Source: Techsciresearch.com, Global Gems and Jewellery Market Forecast & Opportunities, 2018’)

SOME OF THE TOP PRODUCERS, IMPORTERS AND EXPORTERS

- India and China are the largest market for gold jewellery
- India is one of the largest centre for cut and polished diamonds. 9 of 10 diamonds in the world are cut and polished in India
- Japan is the third largest consumer of polished diamonds and one of the leading consumers of gold, precious stones and studded jewellery in the world
- Thailand is one of the foremost producers of sapphire and the world's leading market for processing of colored stones.

(Source: businessvibe)

GLOBAL MARKETS

U.S

USA is the largest diamond jewellery market in the world. In 2014 the US jewellery and watch sales totaled $ 78.08 billion. Diamond jewellery and loose diamonds constitute more than half of retailers’ sales. American consumers buy jewellery from a variety of places such as specialty jewellers, large multi-item stores such as Wall Mart, department stores such as JC Penney, online and even TV retailers like QVC. However, specialty jewelry retailers, retailers that specialize in retailing jewelry, sell the majority of fine jewelry in the US. There were 21,463 specialty jewellery retailers in the US in the fourth quarter of 2014. The majority of retailers are Independents, operating more than 23,000 stores. As disposable incomes rebounded, industry revenue has grown more strongly.

CHINA

Greater China, which consists of Mainland China and Hong Kong is a significant jewellery market and is presently the second biggest market in Asia with a market size of USD 80.7Bn in 2015. The industry employs an estimated 5 million people. The Chinese industry is growing at a rate of over 10%. Gems and Jewellery businesses all over the world have started turning towards the Chinese market, trying to promote their brands and sell their products. Rising costs of labor in China have created challenges for the manufacturing sector; this has led to greater domestic consumption of luxury products, including jewellery. 95% of the jewellery sales are still offline. Online jewellery sales are only 5%. Offline jewellery giants develop online marketing channels, while online Internet jewellery brands gradually turn their attention to offline marketing channels.
U.K
The industry was worth more than $ 6.5 billion in 2015. Overall, the jewellery sector — consists of the high-priced, luxury, real jewellery sub sector and the trend-driven, fashion and costume jewellery subsector. The fashion and costume jewellery sub-sector is considered a fast-growing area within the total jewellery industry, as jewellery becomes a more focal domain within the UK fashion industry.

MIDDLE EAST
Middle East continues to be amongst the top ten global luxury markets. The consumption of luxury goods has surged by 11% in the region, driven largely by rapid growth in tourism, local consumption, and strong historic relevance of luxury in the region. The market is expected to continue to grow fast driven by a large number of mall openings throughout the GCC region in the coming five years. Dubai is the heart of the regional market as the city alone commands around 30% of the luxury market in the Middle East and around 60% of the UAE’s luxury market. The UAE is home to the second highest number of international retail brands with jewellery being one of the top 5 contributors to the UAE economy. Countries in Middle East, led by the United Arab Emirates are major consumers of gold. Dubai is the largest importer and consumer of gold in the Gulf.
(Source: web publications)

JAPAN
Japan is the 3rd biggest consumer of refined diamond and one of the leading customers of gold, gemstones and studded jewellery in the world. The Japanese platinum jewellery market is the second largest in the world, following China. Market Size in 2012 was $ 8.56 billion. The market primarily comprises jewellery with diamonds (with the largest share), with colored stones, with pearls and with gold. In general, the Japanese jewellery industry is well-organized, manufacturing-oriented and high craftsmanship-driven.

DIGITALIZATION OF THE JEWELLERY INDUSTRY
Study shows that the online jewellery sales are around 4-5% of the market today and depends on the regions, brands, and types of jewellery. Online retailing or e-tailing of jewellery does away with geographic boundaries with availability of jewellery at just a click away. Online jewellery shopping is catching up fast and is performing better than its brick and mortar counterpart.

The growth of online jewellery is driven by increasing internet penetration rates around the world, growth in high net worth individuals’ population and availability of low online jewellery prices. However, factors such as lack of touch and feel before buying jewellery online, security risk and e-commerce sales tax are posing challenges to the growth of the online jewellery market. It is estimated that by 2020 the online sales of fine jewellery might reach 10% and that of fashion jewellery may reach around 15% of the total jewellery sales.

INDIAN GEMS & JEWELLERY SECTOR
The Gems and Jewellery sector plays a significant role in the Indian economy, contributing around 6-7 per cent of the country’s GDP. One of the fastest growing sectors, it is export oriented and labour intensive. Based on its potential for growth and value addition, the Government of India has declared the Gems and Jewellery sector as a focus area for export promotion. India is deemed to be the hub of the global jewellery market because of its low costs and availability of high-skilled labour. India is the world’s largest cutting and polishing centre for diamonds, with the cutting and polishing industry being well supported by government policies. India leads global consumption of gold annually, and has emerged as the 6th largest consumer of diamonds in the world. India occupies top position in importing, processing and exporting diamonds, with its cut and polished diamonds, colored gemstones, gold jewellery, pearls, non-gold jewellery and fashion jewellery. Moreover, India exports 95 per cent of the world’s diamonds. (Source: GJEPC). Also, India’s Gems and Jewellery sector has been contributing in a big way to the country’s foreign exchange earnings (FEEs).

The domestic gems and jewellery industry was Rs 251,000 crore in 2013, and has the potential to grow to Rs 500,000–530,000 crore by 2018. The gems and jewellery market in India is home to more than 500,000 players, with the majority being small players. India is one of the largest exporters of gems and jewellery and the industry is considered to play a vital role in the Indian economy as it contributes to a major chunk of the total foreign reserves of the country. UAE, US, Russia, Singapore, Hong Kong, Latin America and China are the biggest importers of Indian jewellery.
According to a report by Research and Markets, the jewellery market in India is expected to grow at a Compound Annual Growth Rate (CAGR) of 15.95 per cent over the period 2014-2019.

The sector is highly-fragmented and unorganised, and is characterised by family-owned operations. Around 96% of the gems and jewellery players have family-owned businesses, but, over the last few years, more organised players have been entering the sector. Gold jewellery forms around 80% of the Indian jewellery market, with the balance comprising fabricated studded jewellery that includes diamond and gemstone studded jewellery. A predominant portion of the gold jewellery manufactured in India is consumed in the domestic market. India is world’s largest cutting and polishing centre for diamonds; the cutting and polishing industry. At present, India exports 95% of the world’s diamonds, (GJEPC). A major portion of the rough, uncut diamonds processed in India is exported, either in the form of polished diamonds or finished diamond jewellery.

**Segmentation:**

(source: A.T. Kearney analysis)

**Key Challenges faced by Industry in India:**

The gems and jewellery industry has significant potential for growth and the corresponding increase in value addition, exports, and employment generation. However, there are certain structural challenges that are keeping the industry from reaching its full potential.

### INDIA’s EXPORT (in USD bullion)

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(Source: GJEPC)
Challenges facing the Indian Gems & Jewellery Industry

- High dependence on Imports – All raw materials are imported
- Volatile raw material prices
- Limited financing options for the industry
- Limited Research and Technology Adoption
- Falling demand at any point in time would stall the expansion plans of organized retail players.
- Competing luxury products may eat into jewellery sales.
- Risk of Talent Shortage

Outlook

It can be said that the prospects of the Indian gems and jewellery market is quite promising with increasing focus of the world towards the quality of gems and jewellery products and better purchasing power of the people in India. The industry derives its strength from availability of cheap labour and strong demand from the domestic market. India is one of the leading players in the Gems and Jewellery market. Over the long term, diamond jewellery demand is likely to witness consistent growth driven by evolving lifestyles, higher disposable incomes, changing tastes and preferences, advent of the online platform and rising demand from tier 2, tier 3 cities and the rural markets.

Corporate Profile

Gitanjali Group is the world’s largest integrated branded jewellery manufacturer-retailer with an annual turnover of around $ 2 billion. Established in 1966, today its activities are spread across the entire value chain from rough diamond sourcing, cutting, polishing and distribution, jewellery manufacturing to branding and retailing gold and diamond jewellery in India and abroad. The Group pioneered jewellery retail revolution in India by launching ‘Gili’ way back in 1994. It today owns and distributes prominent jewellery brands in the country including Gili, Nakshatra, Asmi, Sangini, Nizam and Parineeta to name a few. The Group has capitalized on the strong recall that its brands enjoy and has extended these brands to include other lifestyle categories as well. Gitanjali has an extensive network of own stores, shop-in-shops and franchise outlets. It has also expanded aggressively via the online and digital channels.

The Group has a strong manufacturing base in India and Thailand while its international design centre is located in Italy. Over the last two decades, it has expanded its international operations in USA, UK, Belgium, Italy, the Middle East, China, Singapore and Japan. Today the group owns a large retail chain in the US, Samuels Jewelers Inc; and has acquired a number of brands such as Stefan Hafner, Valente, Io Si, Poratti and others in Italy.

Competitive Strengths

- Vertical Integration – Presence at all levels of the value chain allows for supply chain efficiencies and overall operational synergies.
- Design Bank – Since the group is a powerhouse of brands, designs become its core asset. The group has a strong team of designers, many award winning, and these are crucial to support brand growth. Italy is the company’s international design centre. This supports the company’s international operations. Our manufacturing and designing strengths allow us to constantly innovate and cater to the evolving consumer trends across the globe.
- Manufacturing Strength – Our state of the art manufacturing facilities are strategically located across India and Thailand. Our manufacturing capacity of over half a million pieces of finished jewellery per month ensures consistent supply, economies of scale, superior quality finish and allows us the flexibility to adapt to changing consumer needs rapidly.
- Well Established Brands – Gitanjali is the pioneer of branded diamond jewellery in India, with the launch of Gili in 1994. Over the years, the company acquired and also created several brands which have become household names today. Some of these are Nakshatra, Asmi and Sangini. The group is known as powerhouse of brands and today has created a bouquet of Indian and international brands which caters to various requirements across occasions, price points, age groups as well as geographies.
- Extensive Retail Presence – Gitanjali known for its culture of growth and expansion also made a foray into retail, and over the years has established multiple channels across various formats to ensure it has reached the length and
breadth of the country. Currently the company’s nationwide sales and distribution network comprises retailers, Company-owned stores, Stores set up through franchisee arrangements and shop-in-shops located in department stores. As part of its innovative spirit, the group has advanced greatly into the digital selling channel and is also exploring other channels such as Canteens, Cruise Liners, In-flight, Duty free Stores at airports, etc.

- **International Presence** – Gitanjali is truly a global player in every sense. Present across all the top most global jewellery markets - with 109 stores of Samuels in the USA, spread across the south-west coast, a minority stake in the 3rd largest retail chain in Japan (Verite) and a 20% stake in GSTV Company Limited (One of Japan’s largest jewellery selling TV channels) and 56 points of sale in the Middle East it has a well entrenched presence in the international arena. Gitanjali also supplies jewellery to several retail stores in China. Our diversified presence across geographies helps in de-risking our portfolio.

- **Ability to Innovate** – Gitanjali’s integrated play is what allows it the scale and flexibility to constantly innovate and the company fully capitalizes on this by undertaking design, product and channel innovations to support its growth.

- **Strong Marketing Capabilities** – Gitanjali’s brands today enjoy the recall that they do because of the group’s strong marketing mettle. Gitanjali has always been a brand creator and has taken adequate efforts to support those brands and establish their presence. The group is one of the largest investors in media in the diamond jewellery sector in the country and also the largest print advertiser across categories in the country.

**Development Plans**

Our strategic intent is to leverage upon business model and our competitive strength to build brands and products that offer quality, trust and value to consumers. The focus has always been and continues to be value creation. We plan to achieve this by implementing the following strategies:

**Focus on studded jewellery**

Gitanjali is aggressively focused on expanding the sales of its studded jewellery globally. This business is a high margin business and with evolving consumer tastes, this business has seen and will continue to see tremendous growth

**Focus on Product Innovations**

Gitanjali has always been an innovator adapting to changing tastes and preferences. One such endeavour has been its product innovations wherein it has developed collections of coloured gemstones with alternate metals and has also created jewellery collections with its own alloys to increase affordability while still retaining the product quality and the brand essence. The group will continue to churn out more such ideas and products in the time to come.

**Focus on Channel Innovations**

The Group has explored multiple retail formats and has penetrated through over 200 cities and town across India. In keeping with the digital consumer, Gitanjali has also successfully established itself in the online space through brand portals as well market places. The Group is working on a brick (SIS) and click (E-Com) model and it plans on globally expanding the points of sale through the shop-in-shop route to support the expansion of its Brick & Click model and become one of the largest players in this unique category. Further the group is also exploring channels like army canteens, duty free stores at airports, in-flight, cruise liners, etc.

**Expanding International Presence**

Gitanjali plans to increase its international presence by expanding the studded jewellery retail and distribution business worldwide in existing as well as new geographies where margins are higher. The Group plans to progressively expand in the USA followed by China, then UK, the Middle East, the Far East and other growing markets.

**Brand Extension**

Gitanjali has leveraged upon the tremendous brand recall its brands enjoy and have extended some brands to include lifestyle categories such as apparels and accessories. Going forward, this segment shall also continue to grow to support the company’s online growth.

**Opportunities and Threats**

India is a country where jewellery is a necessity, thus rendering the demand for jewellery relatively price inelastic. Also, there is tremendous opportunity for organized players like Gitanjali to grow as consumer tastes and preferences evolve. The new age consumer prefers convenience and quality. Although traditional jewellers still occupy 90% of the industry,
Modern Retail and Digital platforms are going to form big part of the jewellery landscape going forward. This offers a huge growth opportunity players like Gitanjali who are already into the branded luxury retail space.

Another opportunity that the company sees is the huge potential in rural India and we intend tapping that market further, with new concepts which will appeal to both, rural entrepreneurs as well as rural consumers.

Although, jewellery in India is a necessity, there would be still some factors that could impact demand. These would mainly pertain to macro economic conditions such as the regulatory environment, slow demand, price volatility, etc. These are the key factors which could impact the company’s growth and margins.

**Human Capital**

Gitanjali has immense faith and confidence in the capability of its employees, who contribute to the significant growth of the organization. The company believes in building a distinctly progressive organization by developing & nurturing competent and highly engaged employees across all levels. Gitanjali empowers its employees and provides them with opportunities to grow along with the organization. Employee efforts are always recognized and rewarded. The company always strives to ensure that it makes for a great work place. There were 423 permanent employees on the rolls of company as on March 31, 2016.

**Internal Controls**

The framework for our Roadmap guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable growth.

- **People:** Be a great place to work for where people are inspired to be the best they can.
- **Portfolio:** Bring a new revolution in the branded Jewellery market by offering them high-quality multiple branded jewellery options at competitive prices.
- **Process:** We believe in and adhere to strong operating processes in order to achieve profits and productivity.
- **Profit:** Maximize long-term return to stakeholders while being mindful of our overall responsibilities.
- **Productivity:** Be a highly effective, lean and fast-moving organization.

In order to ensure the above, the company has adequate internal control systems in place. These are to supervise its internal business processes across departments to ensure operational efficiency, compliance with internal policies, applicable laws and regulations, optimum resource and asset utilization, and accurate reporting of financial transactions. The adequacy and efficacy of the control environment is analyzed periodically to ensure that its robustness is reinforced in keeping with the requirements of a dynamic business environment. Observations of significance in summarized internal audit reports are reviewed by a qualified and independent Audit Committee on a regular basis.

**Potential Risks and Concerns**

At Gitanjali, risks are identified and managed through a range of measures and initiatives that have allowed the company to achieve success across markets.

- **Macro economic factors such as a downturn and changes in the regulatory environment do play an important role in impacting the company’s business. However the company’s vertically integrated model and geographically diversified presence immunizes the business against these risks to a great extent.
- **Manufacturing risks could arise from the inability to maintain a stable operating environment. The company mitigates this risk by operating state-of-the-art manufacturing units. Also, the geographic diversification of the facilities helps mitigate the risk of region-specific uncertainties in terms of the regulatory environment, calamities - natural or otherwise and any other such issues.
- **Competitor risks could arise from a growing presence of local, national and international jewelers in terms of its impact on growth and market share. However, Gitanjali’s size and integration allow it to capture additional margins across the value chain. Further its innovative spirit constantly enables it to explore and introduce new avenues for growth. Thus helping it to not only preserve but also increase its market share.
- **Innovation risks could arise from an inability to innovate which could weaken the sales cycle. Gitanjali’s vertical integration allows for it to constantly innovate. The group’s innovative initiatives such as channel innovations, design innovations and product innovations help Gitanjali mitigate the risk of constantly changing consumer trends.
• Commodity price fluctuation risks could arise on account of changes in the prices of diamond and gold and inconsistency in the availability of the same. These could adversely impact earnings. Diamond prices usually are not very volatile over a long period of time. Gold price risk is one of the important market risk for the Company. The Company has a robust framework and governance mechanism in place to ensure that the organization is adequately protected from the market volatility in terms of price and availability. The company’s strong brands command a premium, which absorbs price fluctuations to a fair extent. This helps mitigate commodity price fluctuation risks.

• Forex risks could arise from the company being exposed to foreign currency fluctuations which could impact its rupee earnings. Gitanjali imports rough diamonds but since it is a net exporter of diamonds and jewellery, it only needs to hedge the net exposure which it adequately does via hedging instruments such as forward contracts, etc.

• Intellectual Property risks could arise if the Company is unable to protect its intellectual property rights. The Group’s brands are a significant part of its identity. Gitanjali has invested considerable effort in protecting its intellectual property rights, including trademark registrations, designs and domain names.

• Human Capital risks could arise from the non-availability of an adequately trained and skilled workforce. In order to mitigate this risk the Company ensures regular training sessions, mentoring, etc and takes every effort to build and retain a skilled workforce. The company also has processes and systems in place to help assess and rationalize manpower and other operational costs in order to enhance operational efficiencies and sustain and grow in a challenging business environment.

Corporate Performance -

• Consolidated revenues increased from ₹ 11,48,106.16 lacs in 2014-15 to ₹ 13,98,449.37 lacs in 2015-16.

• Consolidated PBT increased from ₹ 8,841.75 lacs in 2014-15 to ₹ 14,115.82 lacs in 2015-16. Consolidated PAT increased from ₹ 9,549.70 lacs in 2014-15 to ₹ 13,324.25 lacs in 2015-16.

• The Jewellery segment revenues grew from ₹ 786,072.10 lacs in 2014-15 to ₹ 1,125,145.44 lacs in 2015-16. The diamond segment revenues declined from ₹ 422,621.54 lacs in 2014-15 to ₹ 319,927.94 lacs in 2015-16.

• The overall Indian business grew to ₹ 635,652.42 lacs in 2015-16 from ₹ 537,433.78 lacs in 2014-15. The international business grew to ₹ 762,796.95 lacs in 2015-16 from ₹ 610,672.38 lacs in 2014-15.

• The Depreciation & Amortisation expenses decrease from ₹ 4,688.68 lacs in 2014-15 to ₹ 3,669.68 lacs in 2015-16.

• The finance cost decreased from ₹ 90,416.25 lacs in 2014-15 to ₹ 72,637.04 lacs in 2015-16.

• Basic Earnings per share increased from ₹ 9.84 in 2014-15 to ₹ 13.26 in 2015-16.

• Diluted Earnings per share increased from ₹ 9.73 in 2014-15 to ₹ 13.26 in 2015-16.

• The Reserves & Surplus grew from ₹ 401,838.63 lacs in 2014-15 to ₹ 422,396.35 lacs in 2015-16.

• Inventories increased from ₹ 519,531.60 lacs in 2014-15 to ₹ 572,271.01 lacs in 2015-16.

• Sundry debtors increased from ₹ 991,579.31 lacs in 2014-15 to ₹ 1,154,268.73 lacs in 2015-16.