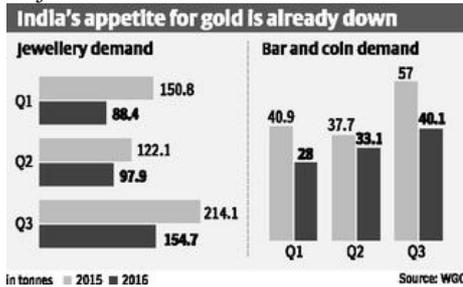


## Crackdown to impact gold demand

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BL Research Bureau:

The Centre's move to scrap Rs. 500 and Rs. 1,000 notes from midnight Tuesday is likely to impact the demand for the yellow metal in a big way. Stocks of listed gold companies took a beating in the market on Wednesday. Titan, Gitanjali Gems, Thangamayil Jewellery and PC Jeweller were down 5-10 per cent.

Most jewellery shops in cities were open till late on Tuesday night as people queued up to exchange their cash for gold. The December quarter sales for jewellers may be good but the next six months to one year will be tough for the industry.

Ketan Shroff, spokesperson for the India Bullion and Jewellers Association, said, "Dealers will be stuck with stock now; there will be zero sales from today. For the next six months at least we don't see sales and the industry will face a very difficult time."

BA Ramesh, Joint MD of Thangamayil Jewellery, which has a chain of stores in Madurai, said, "It is a laudable move. In the long term it will help all players like us in the organised market, but for the next few months we will see some pain."

At least 80-90 per cent of business for jewellers currently is in cash. The efforts to mop up black money from the economy may nail the demand for the metal completely and hit jewellers' revenues.

Somasundaram PR, Managing Director, WGC India, said, "This will squeeze out the smuggling market completely... going forward most of the currencies will end up in the bank, so the move is very transformative for the gold industry."

### Demand drops

According to WGC estimates, of the country's total gold consumption, about 12-15 per cent (about 100-140 tonnes) has been unofficial. If we assume this is the quantum of gold that is sold to people in the black market, then this is the portion of demand that will vanish from the market.

India's gold demand has been falling. The annual consumer demand (jewellery, plus bars and coins) has dropped to 848.9 tonnes in 2015 from 974.8 tonnes in 2013. In the first nine months of the current year, demand dropped about 30 per cent to 442 tonnes, said a WGC report released on Tuesday.

There are several reasons for the decrease in appetite for the yellow metal in the country. Though the regulatory hurdles to import gold, imposed in 2013, were removed in 2014, the demand for the metal in the physical market has dried up. The Centre's move in December 2015 to make PAN card mandatory for jewellery purchases of above Rs. 2 lakh has also hit demand. Further, all the investment demand in the metal has moved to the new sovereign gold bonds, says Shekhar Bhandari, Senior Executive Vice-President & Business Head – Global Transaction Banking & Precious Metals, Kotak Mahindra Bank. The sovereign gold bond scheme has been a great success, a lot of investment demand for the yellow metal has moved to it since the launch in 2015. In the five issues so far, leaving the recent one in October during Diwali, sovereign gold bonds have raised money equivalent to 10.22 tonnes of gold or 10,220 kg of gold.

The current move to crackdown on black money is set to further roil demand. Unless players improve their market share and focus on the 'salaried' middle-class and the rural markets (which account for 60 per cent of consumption demand), the next one year will be tough. The stocks may also see de-rating in valuations with lower revenue growth assumptions.

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