

# Trade Pressures Mount: India's Diamond Sector Faces Two-Decade Export Slump

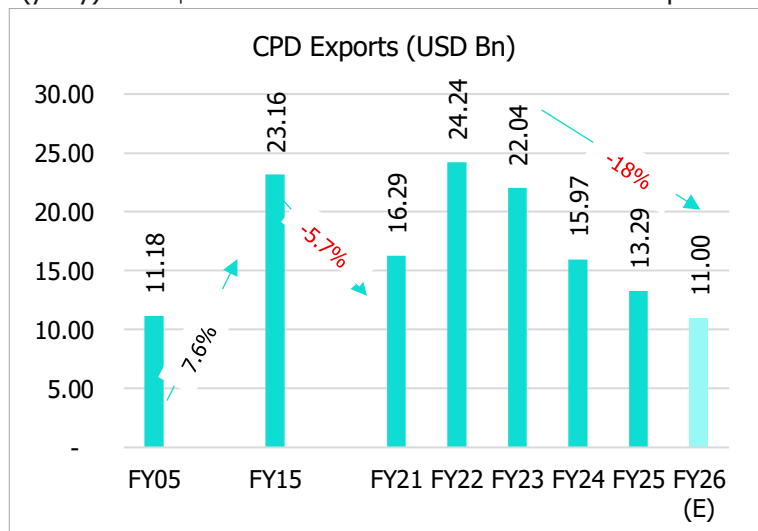
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## Synopsis

- The Cut and Polished Diamond (CPD) industry has been experiencing a rough phase in last two years amidst global headwinds and now braces itself against the steep export tariffs to the United States of America (US), which is the key diamond-consuming nation. The CPD industry operates in single-digit profit margins, and the imposition of blanket tariffs as high as 50% has further exacerbated pressures across the value chain, deepening concerns around revenue, profitability, liquidity, and operational resilience.
- In China, diamonds' share in the overall jewellery market dropped from 14% in 2021 to 6% in 2024 and continues to remain subdued in 2025, reflecting broader shifts in consumer behaviour and economic dynamics.
- The significant share of India in diamond processing (90% by volume of polished diamonds) limits the options for buyers in the near term. However, high tariff, if fully passed on, increases the price of end consumer, significantly in the US, which is likely to impact the CPD demand adversely. Hence, the outlook remains **negative**, and **CARE Ratings Limited (CareEdge Ratings) expects further 17-20% decline in CPD exports to ~US\$ 11 billion in FY26.**
- India, world's second-largest diamond jewellery market, witnessed rising domestic demand from 2024 to 2025. However, this resilient demand is insufficient to offset the sharp decline in exports to key markets such as the US.
- Indian CPD players are responding by curtailing production, exploring new geographies with increased focus on European and domestic market exposure. The sector is also seeking government support through incentive schemes and may consider relocating processing units to lower-tariff jurisdictions in the medium term, if the current trade environment continues.

## Export-driven industry with US, the largest consumer

- CPD exports declined by 17.5% year-on-year (y-o-y) to US\$ 13.3 billion in FY25. This downturn was primarily driven by three factors:
  - **Rising competition from lab-grown diamonds (LGDs)**, which continue to capture market share due to their affordability and ethical appeal.
  - **Global economic headwinds and inflationary pressures**, which have eroded consumer purchasing power and discretionary spending.
  - **Continued weak demand from China**, stemming from economic slowdown and reduced consumer confidence.



Together, these factors have exerted downward pressure on the demand for natural diamonds and price erosion, which has led to dip in scale and moderation in profitability.

India dominates rough diamond processing, handling over 90% of the world's polished diamonds by volume, with its exports constituting over 46.6% of the total India's Gems and Jewellery export. India's polished diamond industry, which earns 80% of its revenue from exports, relies heavily on the US market, which account for over 40% of the global polished diamond demand. Although shipments may be routed through global trading hubs, India's exports to the US directly accounted for 37% of India's exports in FY25.

Country	FY22	FY23	FY24	FY25	4MFY26
<b>Total (USD Billion)</b>	<b>24.4</b>	<b>22.0</b>	<b>15.9</b>	<b>13.3</b>	<b>2.8</b>
USA	40%	36%	35%	37%	23%
Hong Kong	26%	25%	27%	24%	28%
UAE	7%	9%	10%	12%	19%
Belgium	9%	10%	11%	10%	11%

Source: Ministry of Commerce

Following the imposition of a 10% tariff by the US in April 2025, direct exports were adversely affected, leading to a drop in the US share of India's polished diamond exports to 23% in 4MFY26. Exports to other key markets such as the UAE and Hong Kong have increased.

In a move to protect from levy of 10% tariff from April 05, 2025, overall exports increased in March 2025. Following the seasonal lull, Indian diamond polishers ramped up exports in July 2025, before the imposition of additional 15% applicable from August 01, 2025, resulting in an 18% y-o-y growth. However, despite this temporary boost, overall exports for the first five months of FY26 remain 13% lower compared to the same period in the previous fiscal year, reflecting continued pressure on global demand and trade dynamics.

### Structural shift in US natural diamond value chain

A closer look at the current downturn in the natural diamond industry reveals a structural shift unlike previous cycles, such as the Hong Kong-China crisis or the US-China trade war. Historically, miners produced 100–120 million carats annually, which Indian processors purchased under long-term contracts, polished, and exported through trading hubs with extended credit terms. The primary risk for Indian entities lies in receivables; however, demand has remained resilient as natural diamonds hold unmatched value and alternatives are limited.

The rise of LGDs—gemmological equivalents to natural stones, sold at heavy discount compared to natural diamond prices, differentiate the current downturn. Retailers embraced them for better margins, ethical appeal, and affordability, driving strong consumer demand. Over time, this led to selective buying, lean inventories, and memo-based procurement, pressuring midstream players to offer competitive pricing to liquidate stock. This created a widening gap between rough and polished prices.

To stabilise the market, Indian processors implemented a voluntary import ban and constrained procurement, which temporarily reduced inventory and supported polished prices. However, the resumption of rough imports has increased inventory levels.

This triggered a supply-side response from miners—reducing production, cancelling sights, and offering deferrals—though mining operations continued due to high fixed costs. As production outpaced sales, miners now face elevated inventory levels with eroded value, prompting downward revisions in future output targets.

Overall production of rough diamonds reduced in CY23 and CY24, marking the lowest rough diamond production level since Kimberly Process began publishing data (barring CY20, COVID-19 lockdown).

### China's shifting jewellery trends

In China, the diamond market experienced a sharp contraction, declining from RMB 100 billion in 2021 to RMB 43 billion in 2024—a 57% drop. The share of diamonds in the overall jewellery market fell from 14% to 6% in the same period. In contrast, gold jewellery surged in both popularity and market share, rising from 58% in 2021 to 73% in 2024. This shift reflects broader changes in consumer behaviour, influenced by economic dynamics such as moderating GDP growth and a growing preference for investment security.

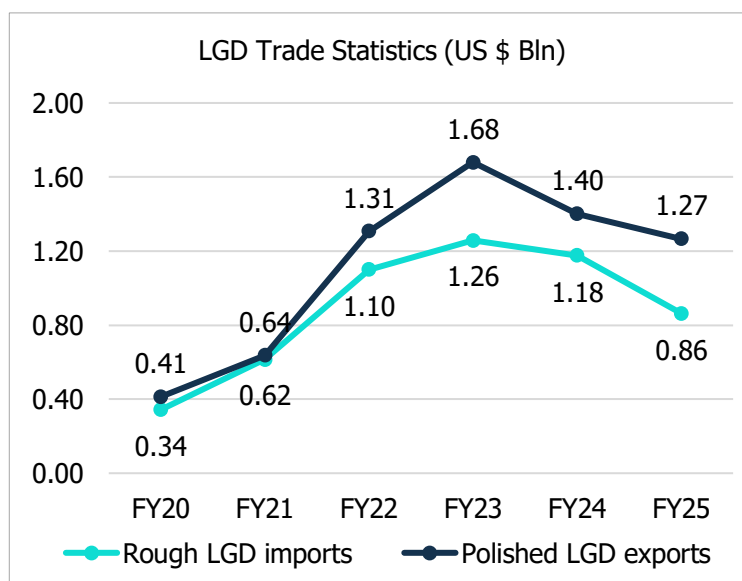
Meanwhile, the growing acceptance of LGDs is reshaping consumer-purchased diamond (CPD) demand. This trend is driven by evolving consumer preferences, a growing middle class, and increasing awareness of the ethical and environmental benefits of LGDs. China produces over 40% of the world's LGDs. Despite this, overall diamond demand remains subdued in 2025 and is expected to recover only with macroeconomic improvements and strategic repositioning by brands.

### India's resilient yet limited demand

India has emerged as the world's second-largest diamond jewellery market, accounting for ~10% share in the global diamond jewellery. The rise in demand in 2024, which is expected to continue into 2025, is supported by increasing disposable incomes, higher penetration and increasing acceptance of diamond jewellery in Tier-II and III cities, and greater financial independence among women. However, the expansion is from a relatively low base, and its momentum is expected to remain subdued in the near term due to record-high gold prices. Moreover, LGDs are gaining traction in India due to its affordability. As a result, India's domestic demand—while resilient—is unlikely to offset the sharp decline in exports to the US and China.

### Leveraging processing capability for LGDs

India continues to leverage its globally recognised expertise in diamond cutting and polishing to efficiently process LGDs. With established infrastructure and skilled labour, Indian entities have successfully transitioned to handling lab-grown stones, marked by import of over USD 1 billion rough LGDs till FY24, enabling it to maintain global leadership in finishing and exporting gem-quality LGDs. Decline in imports in FY25 is due to rising domestic production capacity, falling prices, and a strategic shift toward value-added exports. Indian companies are increasingly leveraging local manufacturing and processing infrastructure to reduce dependence on imported roughs.



Source: GJEPC

In FY25, India exported polished LGDs of USD 1.27 billion, equivalent to ~10% of CPD exports. While the export value dropped by 9.6% y-o-y in FY25 due to falling prices, volumes have increased. In 5MFY26, export of polished LGDs stood at USD 0.48 billion, compared to USD 0.52 billion in 5MFY25.

The growing acceptance of LGDs is reshaping consumer preferences, particularly in key markets such as the US, China, and Europe. The US is the largest market, accounting for 70% of global sales of LGD jewellery in 2024. Globally, LGD jewellery now accounts for ~20% of the overall diamond jewellery market. While the domestic market constitutes a small portion of overall LGD jewellery, its share is expanding rapidly with higher acceptance in urban markets. This shift is expected to moderate demand for natural diamonds, posing long-term challenges for Indian diamantaires reliant on traditional segments.

### Impact on credit profiles

CareEdge Ratings rates a portfolio of entities in the Gems and Jewellery industry, out of which CPD and LGD entities collectively account for a combined income of ~₹48,000 crore. The total debt rated across these entities stands at Rs 11,900 crore. Of the rated portfolio, 85% entities fall in the investment grade category. Most rated entities have low debt levels, as indicated by an overall gearing ratio of ~0.4x to 0.6x and healthy debt coverage metrics. The interest coverage ratio (ICR) remained comfortable at ~3x to 3.5x, suggesting adequate cushion to meet interest obligations even under stressed scenario.

"In last two years, Indian diamantaires have focused on reducing debt levels through inventory, while built-up of net worth base resulted in low leverage at below unity levels for the rated portfolio. Industry has also witnessed some consolidation with smaller players moving out due to low profitability and price erosion. Low leverage with debt majority in form of working capital provides support to financial risk profile of players in near term and reduces default risk. High US tariff is expected to impact scale and weaken profitability and credit metrics. However, the ability to maintain lean inventory levels and low leverage profile will continue to remain a key monitorable" said Ujjwal Patel, Director CareEdge Ratings.

### CareEdge Ratings' View:

#### Channelled efforts to maintain inventory levels

Maintaining controlled inventory levels has become a strategic priority across the diamond value chain.

- **Upstream:** Miners have curtailed production and offered deferrals to sight holders to prevent oversupply.
- **Midstream:** Indian diamantaires are focusing on operations through owned sources to preserve liquidity, debtors' rationalisation and reduce reliance on borrowings, optimise cost, and maintain lean inventory to lower the impact on profitability.
- **Upstream:** Retailers are cautiously assessing consumer response to rising diamond prices following US tariffs. This coordinated effort to maintain lean inventories is essential for stabilising prices and sustaining industry viability amid global demand uncertainty.

CareEdge Ratings continues to maintain negative outlook and expects a further 17-20% decline in CPD exports to ~US\$ 11 billion in FY26.

"Tariffs increasing to 50% by key diamond-consuming nation is expected to exacerbate the demand sluggishness in the CPD industry. The industry continues to face competition from LGDs, and there is limited offsetting potential from alternative markets, such as India and China." said Akhil Goyal, Director, CareEdge Ratings.

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