

Strategy

February 20, 2025

Gold jewelry = Gold + jewelry?

The acceptance of lab-grown diamonds (LGD) among households may shape the following hypothesis: Can the twin roles of gold jewelry as (1) a store of value and (2) an item of fashion split into (1) gold as a store of value and (2) 'any' jewelry as an item of fashion? Indian households will likely continue to see gold as a store of value, despite the rise of equity as an asset class.

Gold is a store of value; diamonds less so

It would be interesting to see if, how and when the consumption patterns of gold and jewelry of Indian households change with the 'rise' of LGDs with their competitive prices versus natural diamonds'. LGDs have seen fast adoption in developed countries and are at an early stage of adoption in India. This may have both (1) macro implications through (a) CAD/BoP if adoption of LGD was to rise rapidly and (b) household purchase of gold in 'financial' or physical form and (2) micro implications through business models of jewelry companies.

Gold as a store of value—gold or gold jewelry, physical or financial gold

We do not expect a major change in the savings behavior of Indian households over the next few years. We note that gold purchases have held up at high levels in the past 3-4 years, even as Indian households have invested large amounts of savings in equities. Indian households have purchased US\$300 bn of gold over FY2015-8MFY25 (see Exhibit 1) against US\$194 bn of equity over CY2015-2MCY25 (see Exhibit 2). However, it is possible that the share of 'financial' gold through gold ETFs in overall household gold purchases may increase at the expense of physical gold (see Exhibit 3).

Gold jewelry as an item of fashion—all sorts of jewelry likely

In our view, the jewelry industry and the jewelry purchase mix of households will both evolve over the next few years with the emergence of LGDs at far lower prices than natural diamonds'. The key questions are (1) the level of acceptance and (2) the pace of uptake of LGDs in studded jewelry by Indian households. At this early stage, we will take the risk of hypothesizing (1) women will probably use a combination of natural diamonds and LGDs in studded jewelry, (2) the share of LGD-studded jewelry in overall household jewelry purchases will likely increase over time and (3) the mix of gold, natural diamond- and LGD-studded jewelry among households will depend on education and income levels.

Risks to jewelry business—revenues, profitability and valuations

We see three potential sources of risks to jewelry companies/stocks—(1) revenues given possibly lower mix of physical gold jewelry in overall household gold purchases in the long term (assuming households were to move gradually to financial gold) and lower prices of LGD-studded jewelry versus natural diamond-studded jewelry, (2) profitability given a likely higher share of LGD-studded jewelry in the overall mix and (3) valuations based on any potential negative changes to the former two. It is apparent that TTAN's multiples (64X FY2026E EPS) do not factor in any of the abovementioned potential risks.

Key estimates summary

	2025E	2026E	2027E
Nifty estimates			
Earnings growth (%)	4.4	14.9	14.2
Nifty EPS (Rs)	1,032	1,179	1,348
Nifty P/E (X)	22.2	19.5	17.0
Macro data			
Real GDP (%)	6.1	6.4	6.5
Avg CPI inflation (%)	4.8	4.2	4.1

Source: Company data, Kotak Institutional Equities estimates

Quick Numbers

Indian households bought US\$300 bn of gold over FY2015-8MFY25 versus US\$194 bn of equity over CY2015-2MCY25

Indian households invested <US\$4 bn in gold ETFs over CY2020-1MCY25

TTAN is trading at 64X FY2026E EPS

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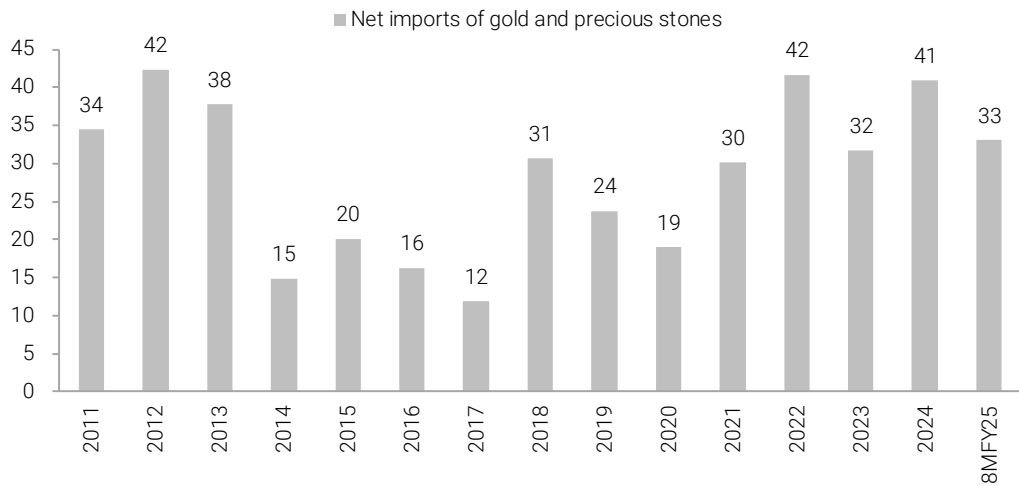
Sanjeev Prasad
 sanjeev.prasad@kotak.com
 +91-22-4336-0830

Anindya Bhowmik
 anindya.bhowmik@kotak.com
 +91-22-4336-0897

Sunita Baldawa
 sunita.baldawa@kotak.com
 +91-22-4336-0896

Indian households invested US\$300 bn in gold over FY2015-8MFY25

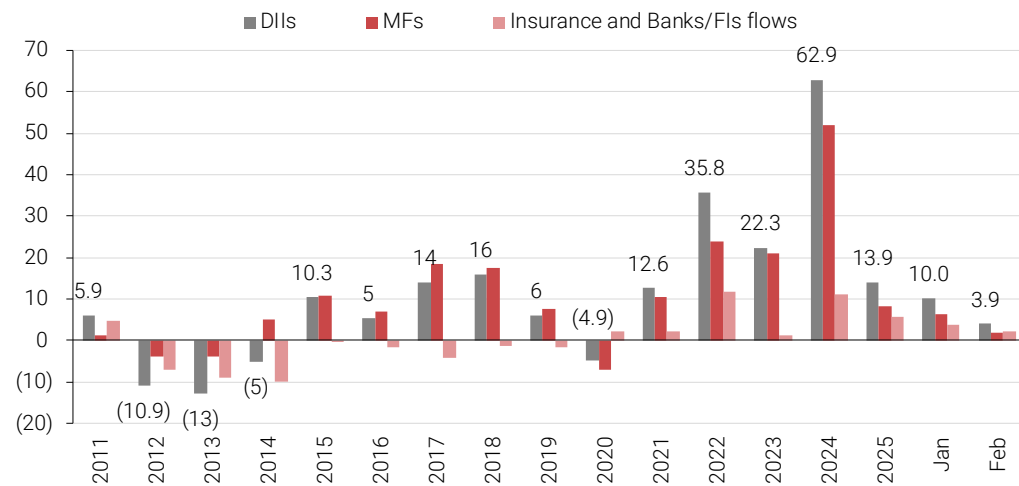
Exhibit 1: Net imports of gold and precious stones, March fiscal year-ends, 2011-25 (US\$ bn)



Source: Ministry of Commerce, RBI, Kotak Institutional Equities

Indian households invested US\$194 bn in equities over CY2015-2MCY25 through MFs and insurances

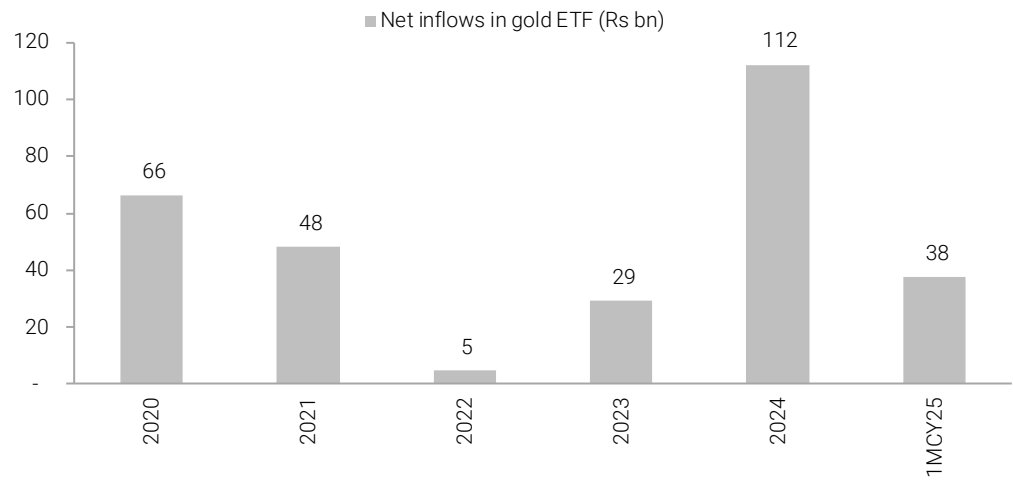
Exhibit 2: Equity flows by domestic institutions, calendar year-ends, 2011-25 (US\$ bn)



Source: Bloomberg, Kotak Institutional Equities

Investment in gold ETFs is at its nascent stage compared to investment in physical gold

Exhibit 3: Net inflows in gold ETF, calendar year-ends, 2020-25 (Rs bn)



Source: ACE MF, Kotak Institutional Equities

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

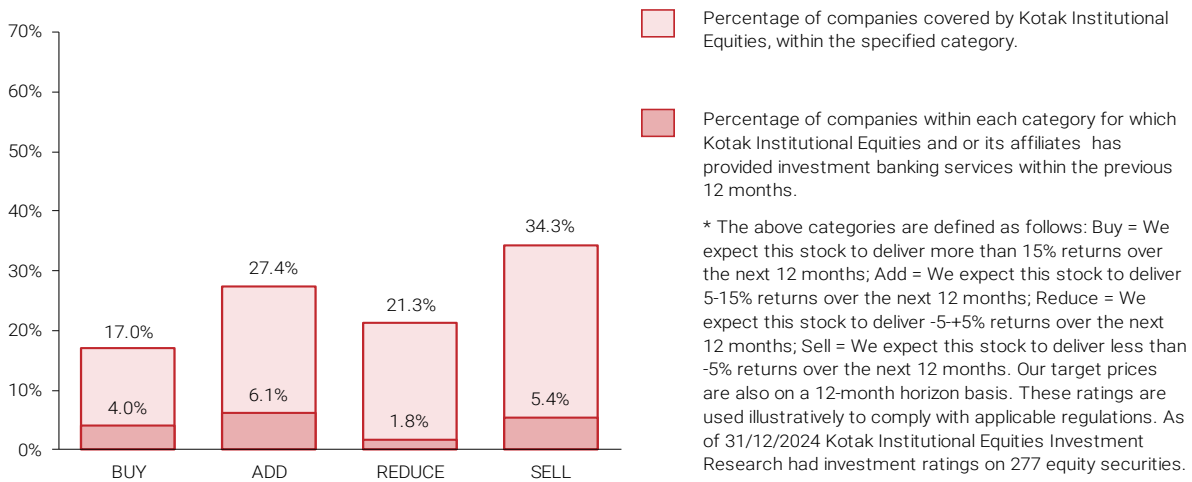
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Our Fair Value estimates are also on a 12-month horizon basis.

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Source: Kotak Institutional Equities

As of December 31, 2024

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Corporate Office

Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block" Bandra Kurla
Complex, Bandra (E) Mumbai 400 051, India
Tel: +91-22-43360000

Overseas Affiliates

Kotak Mahindra (UK) Ltd
8th Floor, Portoken House
155-157 Minorities, London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc
PENN 1,1 Pennsylvania Plaza,
Suite 1720, New York, NY 10119, USA
Tel: +1-212-600-8858

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Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097	18002099393	ks.escalation@kotak.com
Head of Customer Care	Mr. Tabrez Anwar		022-42858208	ks.servicehead@kotak.com
Compliance Officer	Mr. Hiren Thakkar		022-42858484	ks.compliance@kotak.com
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