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INDIAN GOLD JEWELLERY INDUSTRY

Recent sharp spike in gold loan rates amidst rise in gold lease rates likely to affect earnings and cash flows of retailers in FY2026

MARCH 2025

Highlights

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Gold metal loan (GML) rates have risen by around 500 bps amid a sharp increase in gold lease rates in the last one month.

Higher GML rates are likely to impact the interest cover, net margins and cash flows of gold jewellery retailers in FY2026.

- **Apprehensions of tariff hike on gold by the US Government, has led to a continuing shift of physical gold held by major US banks to New York from London in the last one month**. This has led to a widening of gap between spot prices in London and futures prices in New York, thus pushing up demand for physical gold with consequent impact on gold prices. The spurt in withdrawal from the London market is also leading to longer delivery times, owing to which, the gold lease rates (GLR) have risen in the international market.

- **Indian banks offering gold metal loan (GML) facilities to jewellery retailers enter back-to-back gold lease contracts in the international market**. The interest rates offered by the Indian banks on GML represents the sum of prevalent GLR in the London market, country risk premium, entity-specific risk premium and the banks' margins. The lenders have started increasing the GML rates in the last one month amidst a sharp rise in GLR. Consequently, GML rates have increased to ~7.5% for most of the jewellers from the levels of 2-4%. Nevertheless, entities availing fixed deposit-backed GML have witnessed a relatively minimal increase.

- **Increase in GML rates will result in higher financial costs for jewellery retailers** with consequent impact on their cash flows and pricing strategies as GML continues to remain one of the preferred forms of working capital loans for most of the large retailers, given the inherent benefit of hedging. However, the players who also opt for derivate-based hedging would be less affected due to their lower dependence on GML.

- **The rise in GML rates up to ~500 basis points in the recent past will have limited impact on jewellers' financial metrics in FY2025**. However, sustenance of such elevated rates will increase the average borrowing rates up to 350-375 basis points in FY2026. Nevertheless, options to avail a fixed maturity GML at a lower rate, scopes for alternative hedging and continuing deleveraging by major players are likely to moderate the impact of the rise in GML rates, given an increasing adoption of franchisee models and healthy internal accruals.

- **India emerged the top gold jewellery consumer in CY2024 in the world, surpassing Greater China (in volume terms).** Amidst a 28% rise in gold prices in CY2025, the global demand fell by ~11% against which the domestic demand fell by only ~2%. Stable factors like wedding and festive demand aided by cultural affinity towards gold continued to drive gold consumption in India. This apart, shift from other asset classes due to better returns also support demand. Nevertheless, as the prices remain elevated, demand is likely to be subdued in CY2025.

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Thank You!