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MARKET

SHIFTING FOCUS

Shine rubs off gold as rural Indians eye consumer durables

Higher discretionary spending, newer savings options likely to hurt demand for the metal in coming years

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MUMBAI

India's gold demand will take a hit as increasingly prosperous rural consumers switch to other investment options and step up spending on discretionary items, setting the stage for China to overtake its neighbour as top consumer of the metal.

The Indian buyer has traditionally invested in gold as a hedge for bad times, but with prices of the metal soaring and a wave of strong economic growth swelling the country's middle class, demand for consumer durables and appliances has spiked.

Gold prices in India, which imports all of its metal in the absence of major domestic mines, hit a record high of ₹20,924 per 10g on 7 December.

"People in the rural areas are looking to diversify their portfolio to seek better returns," said Prithviraj Kothari, head of trade body the Bombay Bullion Association, which has 400 members.

"With prices so high and banks giving an interest rate of 8.5% on deposits, they would prefer to buy other items. Gold sales would take a hit."

Demand for gold from rural areas that account for about 70% of annual consumption, which averages 550 tonnes, is likely to fall to 50% in coming



Losing sheen: Sales of cars and consumer durables rose 38.8% in April-September, outstripping gold sales, which grew by just 14.6%.

years, industry watchers say.

"With the government keen to make more savings avenues available, rural consumers would consider the newer instruments, taking away money from gold," said Pinakin Vyas, assistant vice-president with IndusInd Bank, a large gold importer.

By March 2012, India's central bank aims to have a bank branch or roll out access to financial services in all villages more than 2,000-strong, its chief D. Subbarao has said, potentially diverting savings away from the precious metal.

"Rural consumers are now more aspirational in their discretionary purchases, and even companies like Maruti and Hero Honda have done well as far as their sales contribution from these areas is concerned," said Vaishali Jajoo, an auto industry analyst at Angel Broking.

Sales of automobiles and consumer durables rose 38.8% in the period from April to

September, outstripping gold sales, which grew by a meagre 14.6%.

India's gold imports hit their lowest level in more than ten years in 2009.

Makers of consumer durables and car producers have all turned their attention to the rural buyer in a bid to diversify their customer base outside fast-saturating urban markets.

"Sales of large domestic appliances and cars have grown exponentially and this was seen during Diwali itself, while gold sales have not kept pace with this rise," said Daman Prakash, director, MNC Bullion, a large gold seller.

"Volumes have been stagnant due to record high prices. I am at a loss to understand how to compete with lucrative offers made by makers of domestic appliances to entice customers."

While the World Gold Council expects India to see record gold imports of 800 tonnes this

year, market participants say there are signs of saturation in consumption among the top consumer and investors are likely to shift into other asset classes including mutual funds and real estate.

"Demand from India is stagnating. If we look at historical numbers, we could very well see China taking over India's position in 4-5 years," said a source at an international exchange, which overlooks gold business in China and India.

In the six months to September, China's gold consumption recorded a 45% surge to 273.7 tonnes, while India's gold demand grew 28% to 394 tonnes.

"It's easier for the Chinese to buy gold as a form of investment as (China's) local bonds and equity markets are not evolved and Chinese banks offer attractive gold investment products," said Sunil Kashyap, regional head of global capital markets at Scotia Capital in Hong Kong.

China's gold consumption is expected to grow faster after the recent de-regulation in the sector, while its clampdown on rampant property speculation could also prompt heavy investment in the metal.

"Times have changed, we used to get our gold rates on radio every evening and would fix our prices accordingly. Now, prices change every split second, there is more volatility and we have to compete with TV and car sellers for demand," said 60-year old jeweller Natvarlal Chokshi, proprietor of Chokshi Vachhraj Mankanji and Co, based in the western Indian city of Rajkot.

"Sometimes I wonder if my grandson will still remain in the same business." REUTERS