SBI Securities

Investment aur Trust, Dono

FINANCIAL MODEL

PLANT VISIT

Rising Stars 2023

IMPORT SUBSITUTION

ORGANISED V/S UNORGANISED

MANAGEMENT MEET

EXPORT OPPORTUNITY

FAST GROWING BUSINESSES

INDUSTRY POTENTIAL

CAPACITY EXPANSION

PEER ANALYSIS

VALUATION MODEL

Investment aur Trust, Dono

Retail Research I BUY

11th December 2023

Long Term Investment Idea (12-18 Months)

Rising Star | Sector: Retail

Senco Gold Ltd.

Sparkling gem at attractive valuation

Current Price*	**Rs. 721.6**
Target Price	**Rs. 920.2**
Upside	**27.5%**

*cmp as on 08th Dec

STOCK DATA

Industry Segment	RETAIL
BSE Code	543936
NSE Code	SENCO
Bloomberg Code	SENCO IN
52 Week High/Low (Rs)	785.0/358.5
Face Value (Rs)	10.0
Diluted Number of Shares (cr)	7.8
Market Cap. (Rs cr)	5,604.2
Avg. Yearly NSE Volume (lakh)	3.4

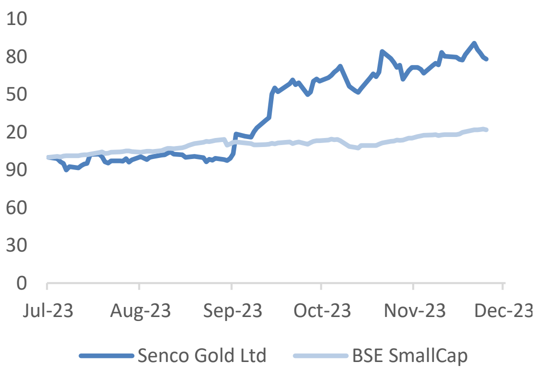
SHAREHOLDING PATTERN (%)

Particulars	Dec-22	Mar-23	Jun-23	Sep-23
Promoters	-	-	-	68.5
FII	-	-	-	14.4
Other Institution	-	-	-	8.5
Public & Others	-	-	-	8.6
Total	**-**	**-**	**-**	**100**

RETURNS STATISTICS (%)

Particulars	1M	3M	6M	12M
Senco Gold Ltd	3.8	79.5	NA	NA
BSE SmallCap	7.2	7.4	-	-

STOCK PERFORMANCE (since listing)



Source: Capitaline, SSL Research

Senco Gold Ltd. is a pan-India jewellery retail player with a history of more than five decades. The company's products are sold under the brand of 'Senco Gold & Diamonds' through multiple channels which include owned stores, franchise stores and various online platforms. Senco enjoys a wide and directly-owned retail presence across West Bengal, Uttar Pradesh, Odisha, Jharkhand, Karnataka, Maharashtra and Assam. It has 83 Company Operated (CO) showrooms and 62 Franchise Operated showrooms as of Sep'23 across all regions in India.

We believe great growth prospects lie ahead for Senco Gold in the Indian retail jewellery market due to (a) Its strong legacy of over 5 decades (b) Focus on lightweight, modern and affordable jewellery segment (c) Robust business model with right mix of CO/Franchise model and rising stud ratio aiding healthy overall margins and return ratios (d) Diverse distribution channel with growing presence across regions (e) Proper hedging practices to avoid the impact of gold price volatility (f) Positive industry outlook favoring growth of organized players. We expect Senco to grow at Revenue/EBITDA/PAT CAGR of 24.8%/21.8%/21.6% respectively over FY23-FY26E. **At current price, Senco Gold is trading at PE multiple of 34.4x/25.9x/19.7x of its FY24E/FY25E/FY26E earnings respectively. We have valued the company at 35.9x PE multiple based on its FY25E earnings and arrive at a target price of Rs 920, implying an upside potential of 27.5% and assign a BUY rating for the stock.**

Investment Rationale

Strong legacy of over 5 decades: The company has a track record of >5 decades in the jewellery business ensuring trust and transparency among the customers. It is the largest organised jewellery retail player in the eastern region of India based on the number of stores and among eastern India based jewellery retailers.

Focus on lightweight, modern and affordable jewellery: Though the company has wide range of product offerings catering to different customer segments, it particularly caters to the upwardly mobile class and younger generation as it believes that the consumer preference is shifting away from traditional bulky jewellery to light-weight fashion items. Accordingly, the company's light and affordable jewellery product range starts at ~Rs 2,000.

Financial Summary (Consolidated)

Particulars (Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	3,534.6	4,077.4	5,086.5	6,425.7	7,925.8
growth (%)	*32.9*	*15.4*	*24.7*	*26.3*	*23.3*
EBITDA	277.2	316.6	350.9	449.9	572.4
growth (%)	*58.1*	*14.2*	*10.9*	*28.2*	*27.2*
EBITDA Margin (%)	7.8	7.8	6.9	7.0	7.2
Adj. Net Profit	129.1	158.4	162.8	216.5	284.8
growth (%)	*109.9*	*22.7*	*2.8*	*32.9*	*31.6*
EPS (Rs)	24.3	28.4	21.0	27.9	36.7
P/E (x)	29.7	25.4	34.4	25.9	19.7
P/BV (x)	5.3	4.3	4.1	3.6	3.0
D/E (x)	1.2	1.2	0.9	0.9	0.9
RoE (%)	19.4	19.0	14.1	14.7	16.7
RoCE (%)	18.2	16.3	13.8	14.9	16.5
Dividend yield (%)	0.2	0.1	0.2	0.2	0.2

Healthy return ratios from franchise sales and margin accretive CO sales aids overall company level return ratios

Robust business model with right mix of CO/Franchise model and rising stud ratio aiding healthy overall margins and return ratios: Senco Gold operates through a mix of Company Operated stores and Franchise stores. While margins from the franchise store are lower than margins at CO store, sale through franchise store command relatively better RoE/RoCE which helps to improve overall company level return ratios. Senco currently enjoys a healthy Company Operated:Franchise store mix of 55:45 which is likely to become 57:43 going ahead. Going forward, we expect CO stores to increase from 75 in FY23 to 90/105/120 in FY24E/FY25E/FY26E respectively and franchise stores to increase from 61 in FY23 to 70/80/90 in FY24E/FY25E/FY26E respectively. Also, the company's margin accretive stud ratio (diamond sales) has grown from 5% in FY18 to 7% in FY23. During 1HFY24, the company's blended stud ratio stood at 11.4% which the company aims to increase to 15% in the next 3-4 years.

79% presence in eastern market followed by 14% in north as of FY23; Focus on expanding stores outside east and north

Diverse distribution channel with growing presence across regions: The company operates through multiple channels (Company Operated/Franchise) and continues to expand its geographic presence with a focus on East and North to work towards an omni-channel network. Senco has also widened its presence through the digital platform thus providing an asset light sales channel. It has the largest presence in eastern market with 79% of its stores located in the eastern region followed by North with 14% of store presence in FY23. Nevertheless, as a matter of prudence and diversification, the company is focusing on expanding its presence outside East and North, with 6 stores in West and 4 in South as of Sep'23.

~80% of inventory hedged against the policy of minimum 51% hedge

Proper hedging practices in place to de-risk the business from the impact of heavy gold price movement:
Any significant movement in gold prices can affect company's margins and hence jewellery companies need to adopt appropriate hedging strategies. As per Senco's current hedging policy, it has to hedge its gold inventory to the extent of minimum 51% and maximum 100% by weight. The hedging is done via a mix of gold metal loans (GML) and forward contracts (short positions in futures/purchase of options). GML provides a natural hedge from any fluctuation in gold prices. Under such arrangements, the price of gold purchased is not fixed on procurement but rather within the applicable credit period (180 days in case of domestic manufacturing and 270 days for exports). This enables Senco to minimize any risk relating to gold price fluctuations between the time of procuring gold and selling the finished product to customers. Currently, the company has hedged ~80% of its inventory.

Estimated 15.4% CAGR in Indian jewellery market over FY23-27E, rising share of unorganised players, supportive government policies to favor industry growth

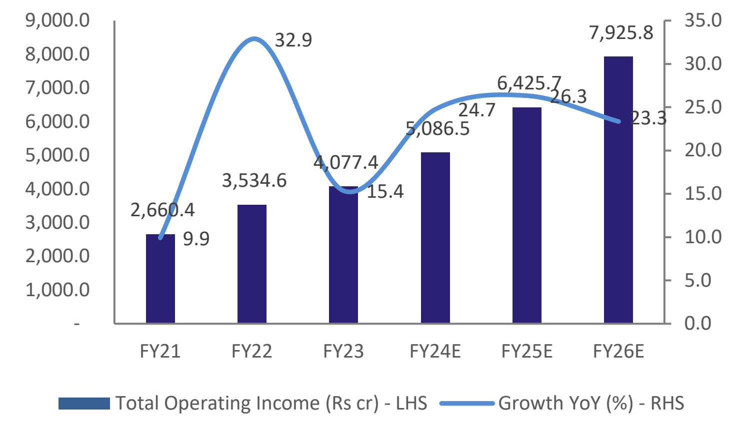
Positive industry outlook favouring growth of organized players: India is the second-largest consumer of gold in the world after China. As per industry statistics, the market size of Indian jewellery retail sector is likely to grow at a CAGR of 15.4% between FY23-FY27E. Though the unorganised segment accounts for majority of the Indian retail jewellery industry, factors such as GST implementation, mandatory hallmarking of gold jewellery, better inventory management, etc. has led to a shift from unorganised to organised players in the Indian jewellery segment.

Key Risks:

1. Intense competition
2. Volatility in gold prices may dampen jewellery demand
3. High working capital requirement
4. Dependence on skilled designers/Karigars

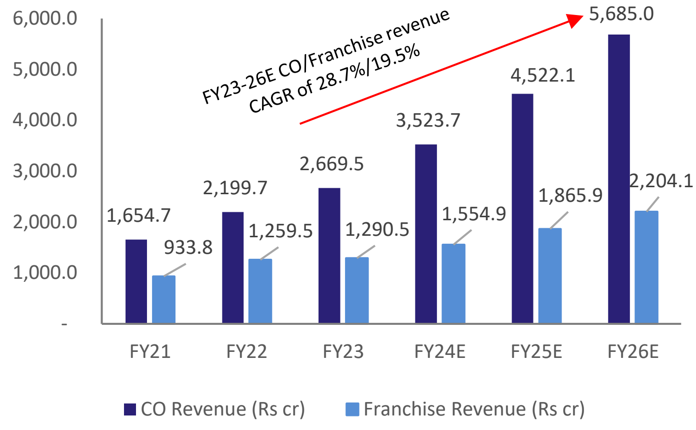
Story in Charts

Exhibit 1: Healthy sales growth aided by robust expansion strategies



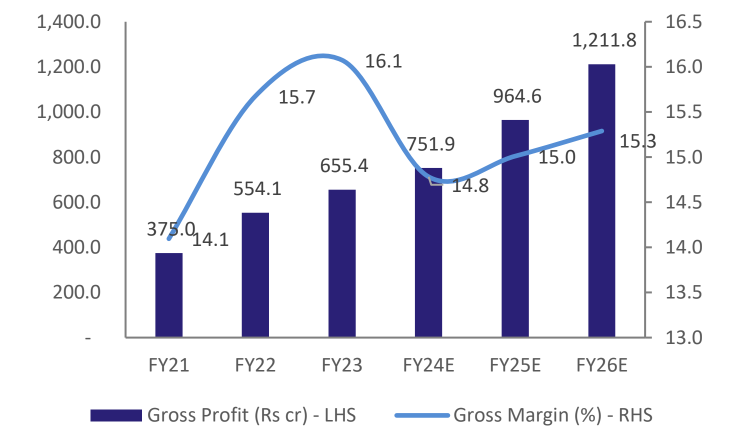
Source: Company, SSL Research

Exhibit 2: Revenue split between CO and Franchise stores



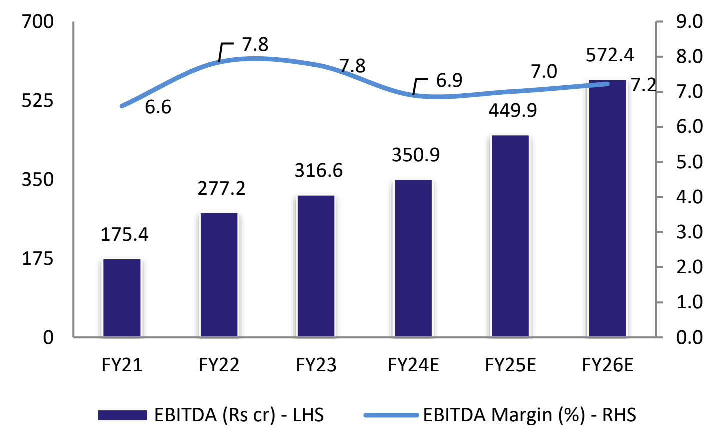
Source: Company, SSL Research

Exhibit 3: Gross margins may dip in FY24E and see improvement later



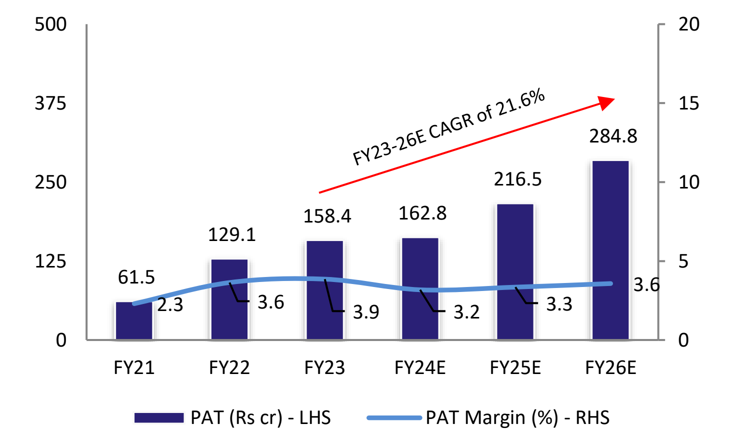
Source: Company, SSL Research

Exhibit 4: Consistent EBITDA growth with improvement in margin



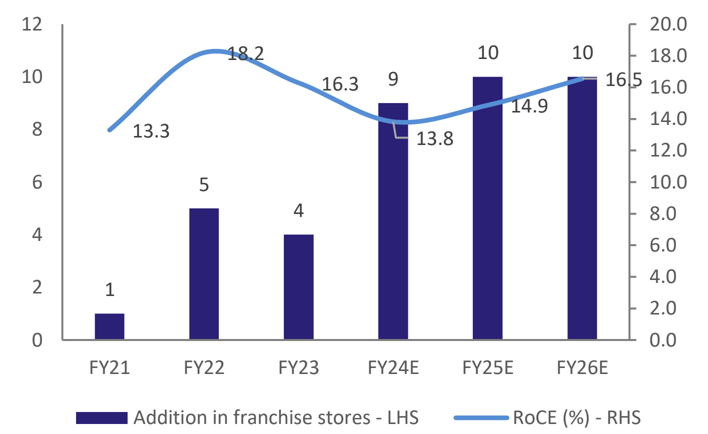
Source: Company, SSL Research

Exhibit 5: Consistent PAT growth with stable PAT margin



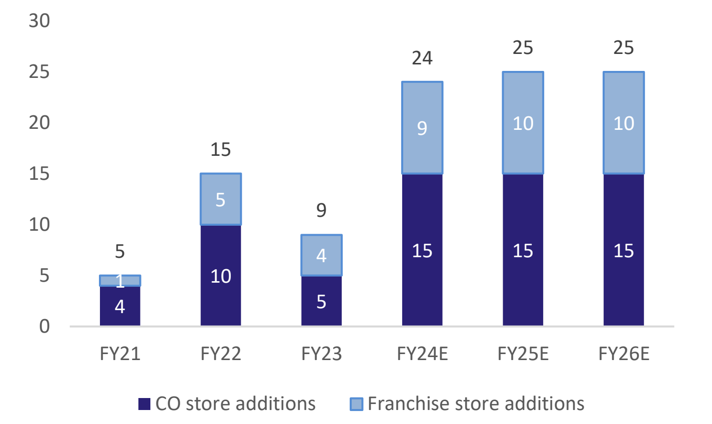
Source: Company, SSL Research

Exhibit 6: RoCE improvement with growing franchise stores



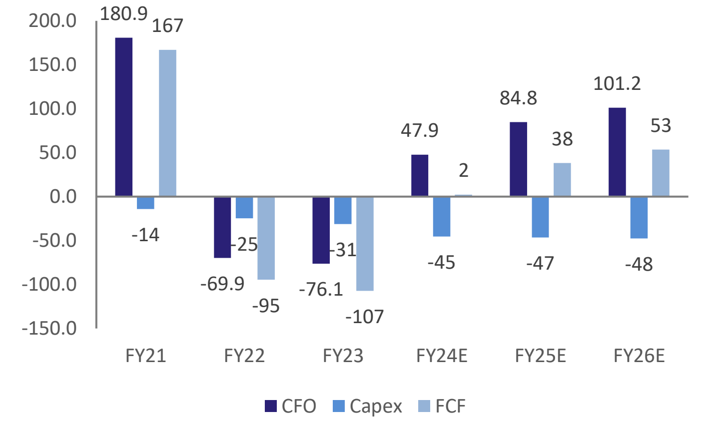
Source: Company, SSL Research

Exhibit 7: CO & Franchise showroom additions



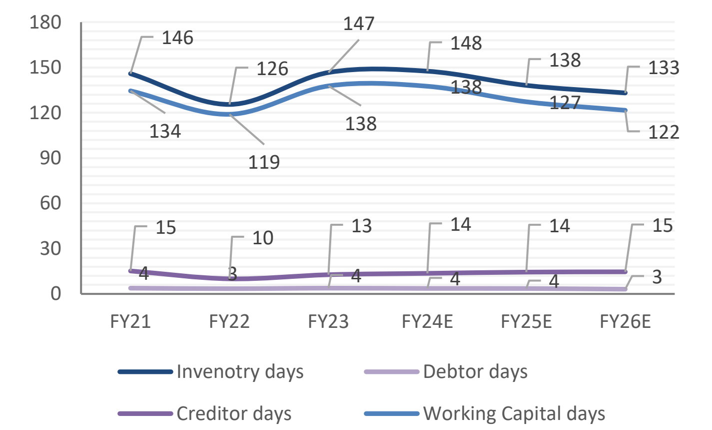
Source: Company, SSL Research

Exhibit 8: Free cash flow generation (Rs cr)



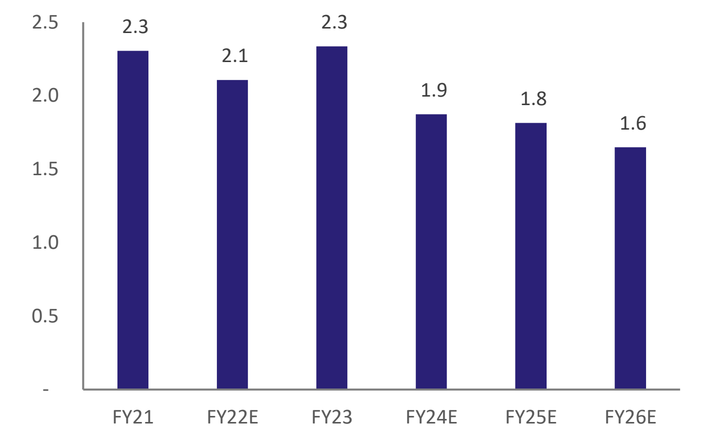
Source: Company, SSL Research

Exhibit 9: Decent working capital management



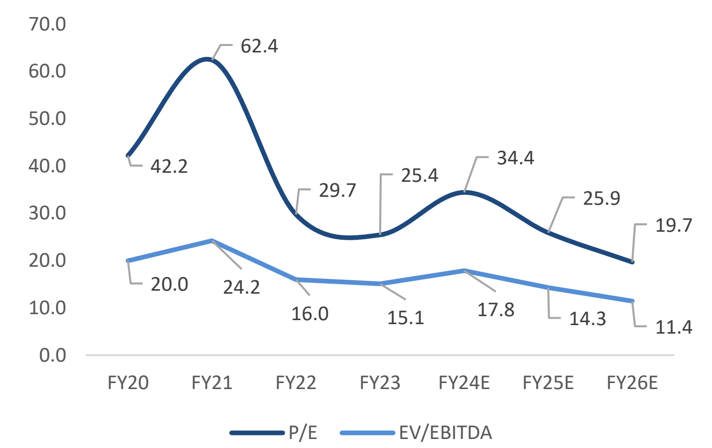
Source: Company, SSL Research

Exhibit 10: Net Debt/Equity (x)



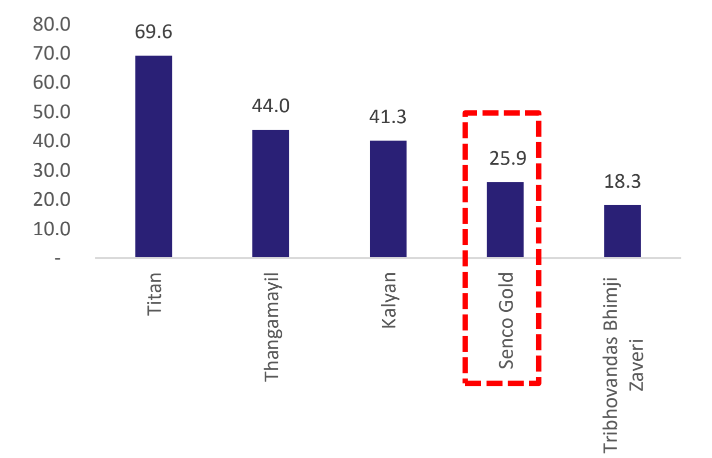
Source: Company, SSL Research

Exhibit 11: Valuation Metrics (x)



Source: Company, SSL Research

Exhibit 12: Cheaper valuation than most listed peers - 1-Yr Fwd P/E (x)



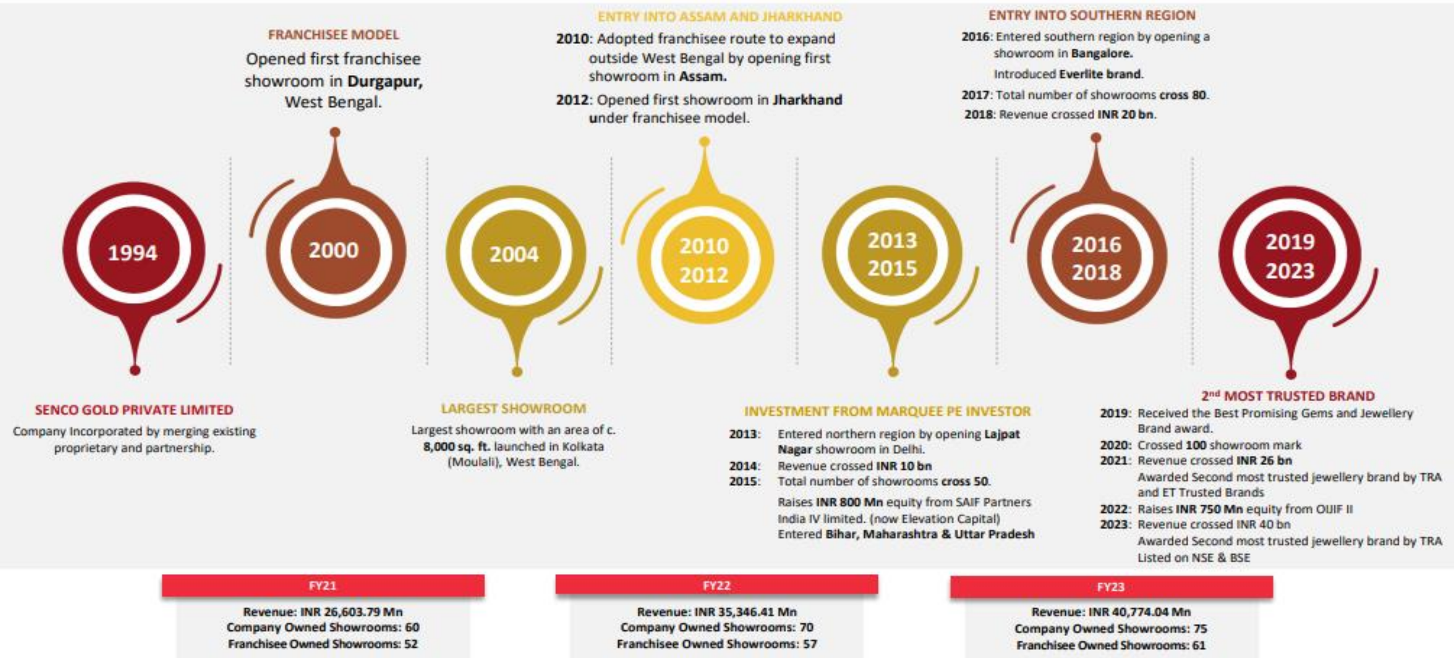
Source: Company, SSL Research

Investment Rationale

A. Strong legacy of over 5 decades:

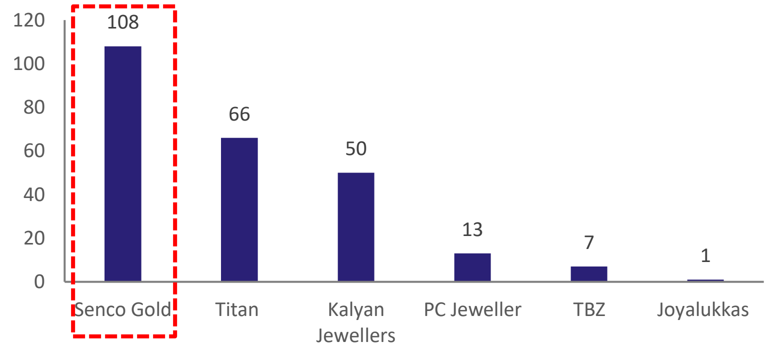
Senco's founder, Late Sankar Sen, and his predecessors have been in the jewellery business since 1966 while the company was incorporated as Senco Gold Pvt. Ltd. in 1994 by merging the proprietary and partnership firms. Currently, the business is being handled by the fourth-generation entrepreneur of the family Mr. Suvankar Sen, MD & CEO, his mother Mrs. Ranjana Sen, Chairperson, and Mrs. Joita Sen (wife of Suvankar Sen), Head of Marketing and Head of Design. The company's track record of more than 5 decades in the jewellery business ensures trust and transparency among the customers. Senco has also installed gold testing machines (XRF machines) to provide assurance to customers for the hallmarked gold jewellery at all its showrooms and follows stringent and transparent purity checks to ensure quality of the jewellery. It is the largest organised jewellery retail player in the eastern region of India based on the number of stores and among eastern India based jewellery retailers.

Exhibit 13: Legacy of over 5 decades with multiple developments over the years



Source: Company, SSL Research

Exhibit 14: Major organised jewellery retailer in East & North-East – No. of stores as of FY23

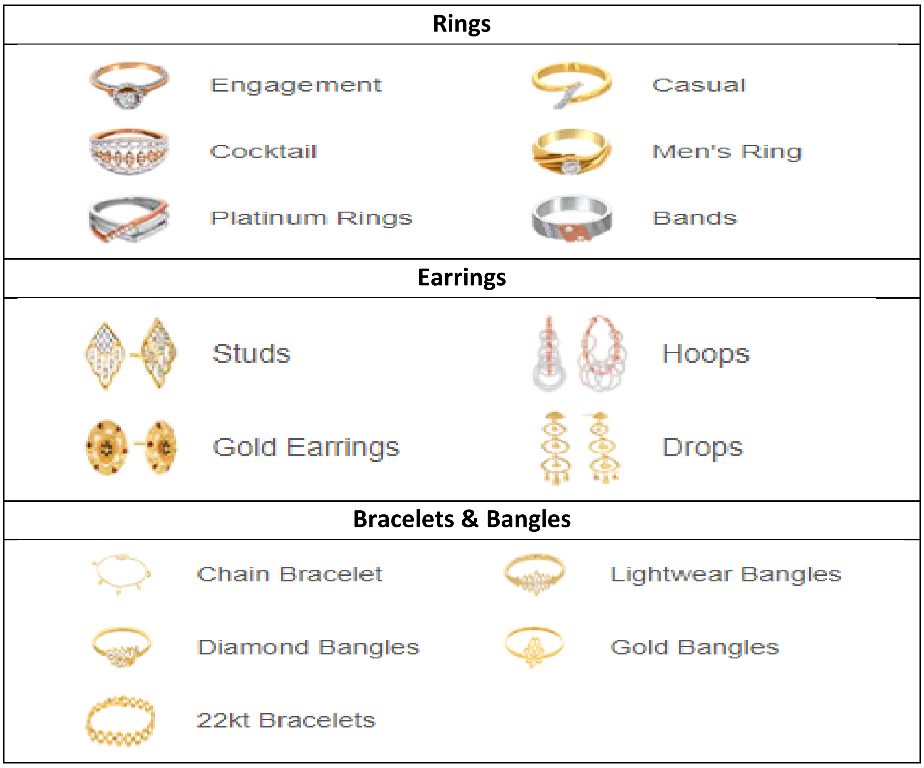


Source: Company, SSL Research

B. Focus on lightweight, modern and affordable jewellery:

The company primarily focuses on marketing lightweight jewellery with gold content of 1 gm to 10 gm in case of gold jewellery and diamonds of less than 20 cents for diamond jewellery. Though the company has a wide range of product offerings catering to different customer segments, it particularly caters to the upwardly mobile class and younger generation as it believes that the consumer preference is shifting away from the traditional bulky jewellery to lightweight fashion items, with increasing number of working women, exposure to global designs, and rising number of young consumers preferring to purchase jewellery for adornment rather than investment. Accordingly, the company's light and affordable jewellery product range starts at ~Rs 2,000. Further, it has a diverse range of offerings within the category of affordable jewellery with an active catalogue of more than 1,30,000 designs for gold jewellery and more than 72,000 designs for diamond jewellery. Its Everlite collection of light weight gold and diamond jewellery (Rs 3,000 to Rs 50,000) is targeted at the middle-income segment. The Gossip collection caters to the silver and costume jewellery needs of young customers.

Exhibit 15: Everlite (lightweight) jewellery collections



Source: Company, SSL Research

C. Robust business model with right mix of Company Operated/Franchise model and rising stud ratio aiding healthy overall margins and return ratios:

Senco Gold operates through a mix of Company Operated stores and Franchise stores. The margins from franchise showrooms are typically lower than margins at company operated showrooms. However, it enables asset light business model due to nil setup cost of franchise showrooms and immediate transfer of inventory. Due to nil capital requirement, RoCEs are healthier in case of franchise stores.

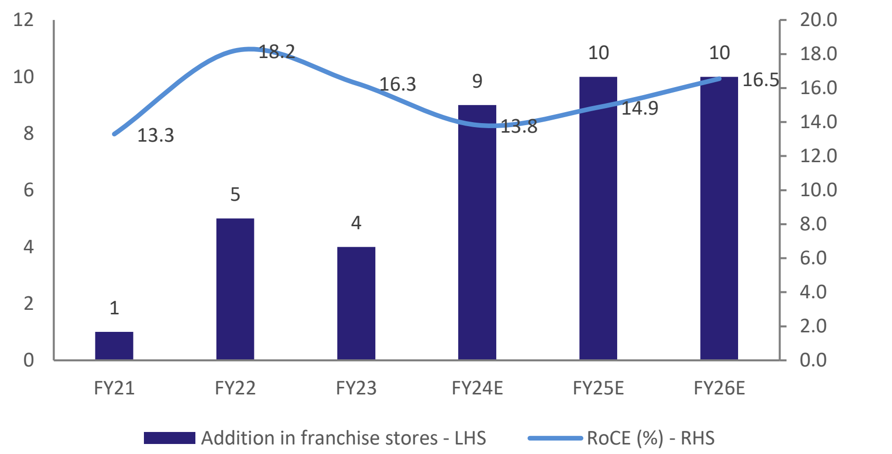
Exhibit 16: Advantages of Franchise and CO models

Franchise model	Company Operated model
Lower capital requirement: By expanding via the franchise route, a company can lower its capital requirements for the opening of new stores. Hence, a company following a franchise model is likely to have a leaner balance sheet.	**Better control of operations:** The company has total control of operations which provides higher flexibility in case operations need to undergo major changes. In the case of a franchise, the agreements need to change before such changes can take place.
Better understanding of local preferences: Franchisees often have a stronger understanding of local consumer preferences in jewellery, especially in new markets, enabling the company to faster cement its presence in the market.	**Higher margins:** Since companies do not share margins with franchisees, their operating margins tend to be higher, despite the higher fixed cost burden.
Lower operating expenses: Since franchisees bear part of or all of the entire operating expense, the company's fixed cost burden is lowered.	**Standardisation across stores:** The company can maintain standardisation across all of its stores with greater ease.
Lower inventory risks: If, under the agreement, the franchisee bears the inventory risks, it lowers the company's working capital requirements.	**Ability to roll out newer designs faster:** Companies can introduce new collections/designs of jewellery more seamlessly. If inventory risk is borne by the franchisee, it may not be willing to experiment with newer designs unless there is a consumer demand.

Source: Company RHP, SSL Research

Senco sells its inventory outrightly to the franchise after retaining a gross margin of 7-8%. As all capital outlay for capex as well as inventory is borne by the franchise itself, Senco earns high RoCEs from franchise stores. Given the Senco's prestigious position in the Indian jewellery industry, prospective entrepreneurs have been deeply interested in taking up franchisees with Secno to earn healthy RoI and get decent liquidity. It has been observed that many businessmen hold on-an-average 2 franchise stores while some even take up to 5-8 franchise showrooms demonstrating the successful execution of franchise model of Senco over the last 2 decades. The company currently enjoys a healthy Company Operated:Franchise store mix of 55:45, which is likely to become 57:43 going forward while the revenue mix is likely to be in the range of 69:31. The right mix of Company Operated:Franchise helps the company in maintaining healthy margins and improve overall company level capital employed and RoCE.

Exhibit 17: Improvement in company level RoCE with growing franchise stores

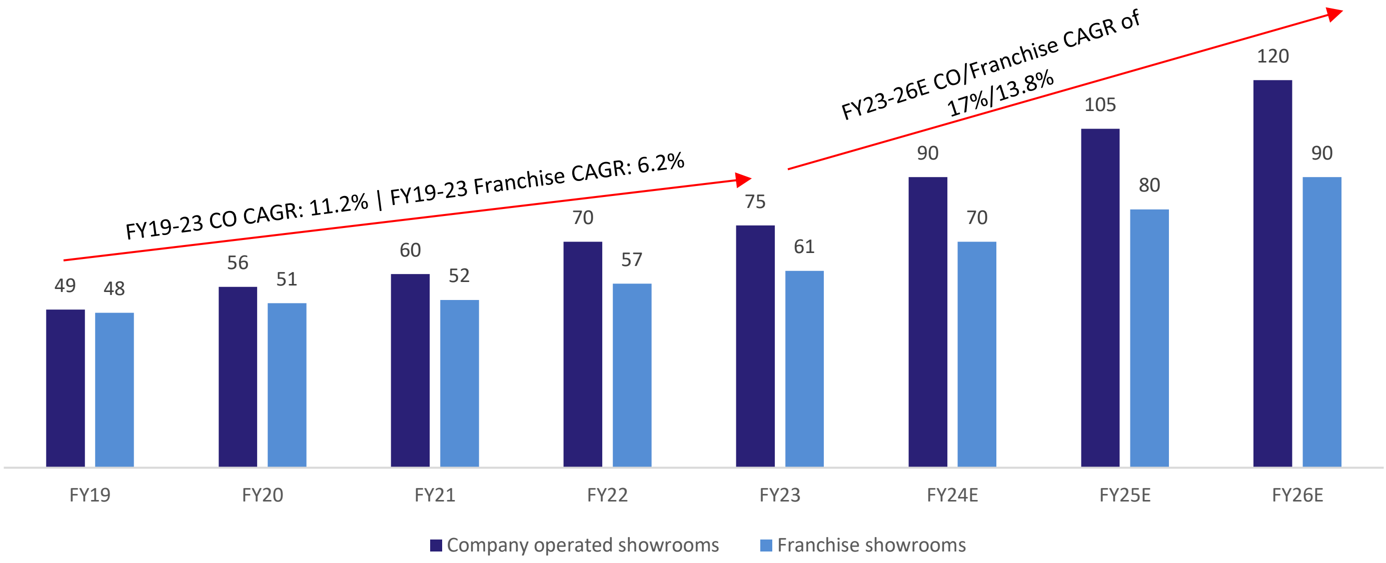


Source: Company, SSL Research

Also, the company's margin accretive stud ratio (diamond sales) has grown from 5% in FY18 to 7% in FY23. During 1HFY24, the company's blended stud ratio stood at 11.4% which the company aims to increase to 15% in the next 3-4 years.

The company's total showroom count has grown at a CAGR of 8.8% from 97 in FY19 to 136 in FY23 with Company Operated and Franchise showrooms growing at a CAGR of 11.2% from 49 to 75 stores and 6.2% from 48 to 61 stores respectively over the same period. During 1HFY24, Senco net added 8 company operated and 1 franchise showrooms. The company has given guidance to add 15-18 company operated stores and 8-10 franchise stores annually for the next 3 years. This is likely to take Senco's total store count to 210 by FY26E with 120 company operated and 90 franchise stores. In the next 4-5 years, the company looks confident to achieve a total store count of 250+.

Exhibit 18: CO/Franchise mix – No. of stores



Source: Company/SSL Research

D. Diverse distribution channel with growing presence across regions:

The company operates through multiple channels (Company Operated/Franchise) and continues to expand its geographic presence to work towards an omnichannel network. Senco has also widened its presence through the digital platform thus providing an asset light sales channel. The company has expanded to 16 states, marked by 83 company operated showrooms and 62 franchise showrooms in 96 towns and cities as of Sep'23. It has the largest presence in eastern market with 79% of its stores located in the eastern region followed by north with 14% of store presence in FY23. Location wise, the company is present in prominent and accessible high street or mall locations.

Exhibit 19: Company Operated stores spread across regions

Region	FY23	% of total owned stores	As of Sep'23	% of total owned stores
East	48	64%	49	59%
North	18	24%	20	24%
West	6	8%	6	7%
Central	0	0%	4	5%
South	3	4%	4	5%
Total	**75**		**83**	

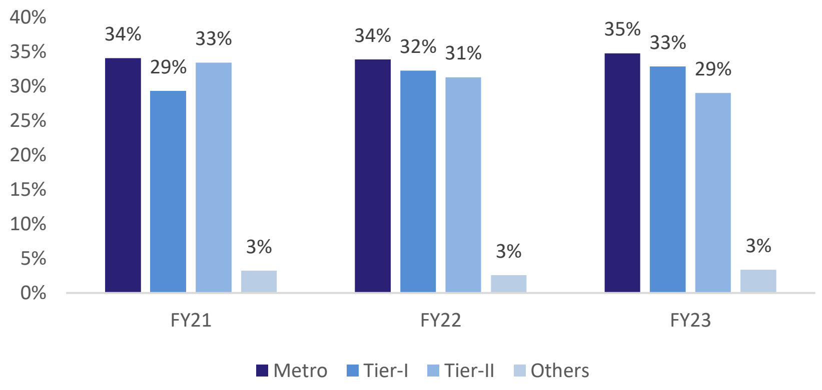
Source: Company, SSL Research

Exhibit 20: Franchise stores focused in east

Region	FY23	% of total owned stores	As of Sep'23	% of total owned stores
East	60	98%	61	98%
North	1	2%	1	2%
West	0	0%	0	0%
Central	0	0%	0	0%
South	0	0%	0	0%
Total	**61**		**62**	

Source: Company, SSL Research

Exhibit 21: Revenue split by location



Source: Company, SSL Research

Moreover, Senco uses 'hub and spoke' approach to enter new geographies whereby it forays into large/new cities (tier-I) by way of company operated stores and then leverages its franchise model to further penetrate into the smaller tier-II and tier-III cities. The company intends to continue to open company operated showrooms in metro and tier-I cities as well as strengthen its presence in east. The company recently opened showrooms in Bihar (Dumka, Bhagalpur, Arrah), Madhya Pradesh (Indore, Raipur, Bhopal), Chandigarh, Gangtok (Sikkim) etc. and intends to continue to expand its network in the northern states in India in the near future.

E. Proper hedging practices in place to de-risk the business from the impact of heavy gold price movement:

Increase in gold prices impacts jewellery sales volume as consumers generally defer purchase of gold jewellery or reduce the purchase volume in a rising gold price environment, while maintaining the budgeted spends amount. Any significant downward movement in gold prices can affect a jeweller's margins and hence jewellery companies need to adopt appropriate hedging strategies. As per Senco's current hedging policy, it has to hedge its gold inventory to the extent of minimum 51% and maximum 100% by weight. The hedging is done via a mix of gold metal loans (GML) and forward contracts (short positions in futures/purchase of options). At present, the company sources ~50% of its gold requirement through GML, ~30% through outright purchases or bullion dealers and balance 20% via old gold exchange programs from customers. GML provides a natural hedge from any fluctuation in gold prices. Under such arrangements, the price of gold purchased is not fixed on procurement but rather within the applicable credit period (180 days in case of domestic manufacturing and 270 days for exports). This enables Senco to minimize any risk relating to gold price fluctuations between the time of procuring gold and selling the finished product to customers. Further, GML comes at a relatively lower cost in the range of 3% to 3.5% which leads to overall reduction in blended interest rate for the company in the range of 6.2% to 6.5% per annum.

Exhibit 22: Senco's source of gold procurement

Gold Source	FY20	FY21	FY22	FY23
Bullion banks - Gold Metal Loans (GML)	30%	49%	44%	49%
Bank outright	2%	2%	1%	1%
Bullion Dealers	32%	20%	24%	10%
Old Gold exchange	19%	17%	15%	20%
Trading Jewellery Purchase	17%	12%	16%	20%

Exhibit 23: Reduction in blended interest rate with increase in proportion of GML

Particulars	FY20	FY21	FY22	FY23
Total working capital borrowings	**574.8**	**532.0**	**863.0**	**1,177.2**
GML	200.3	250.4	431.4	637.6
Others (Cash Credit/ WCDL)	374.5	281.6	431.6	539.6
GML's proportion in total debt	35%	47%	50%	54%
Interest rate				
GML	3.015	3.865	3.865	3.500
Other debt	10.224	9.590	10.084	9.576
Blended interest rate	**7.7**	**6.9**	**7.0**	**6.3**

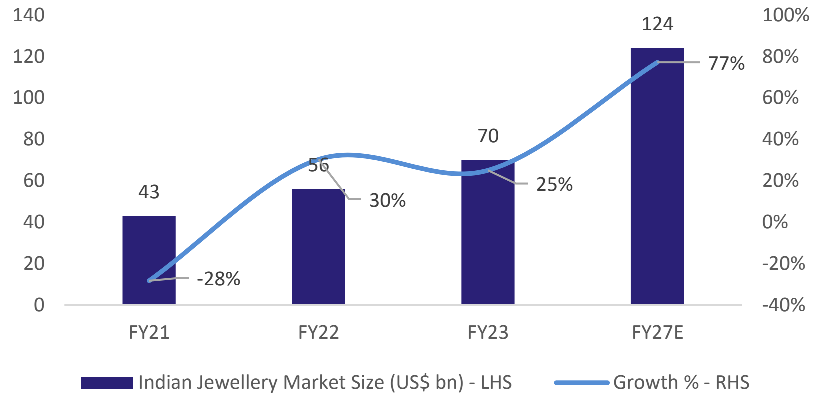
Source: Company, SSL Research

F. Positive industry outlook favoring growth of organized players:

Indian retail jewellery market size likely to grow at 15.4% CAGR over FY23-FY27E

India is the second-largest consumer of gold in the world after China. In addition to being a big market, India also plays a significant role in the supply chain of both gold and diamond jewellery markets. As per industry statistics, the Indian jewellery retail sector's market size stood at ~US$ 70 bn in FY23 which is expected to grow to approximately US$ 124 bn by FY27E.

Exhibit 24: Indian Jewellery market size (US$ bn)



Source: Peer Company RHP (Technopak), SSL Research

Following are the demand drivers for retail jewellery growth in India:

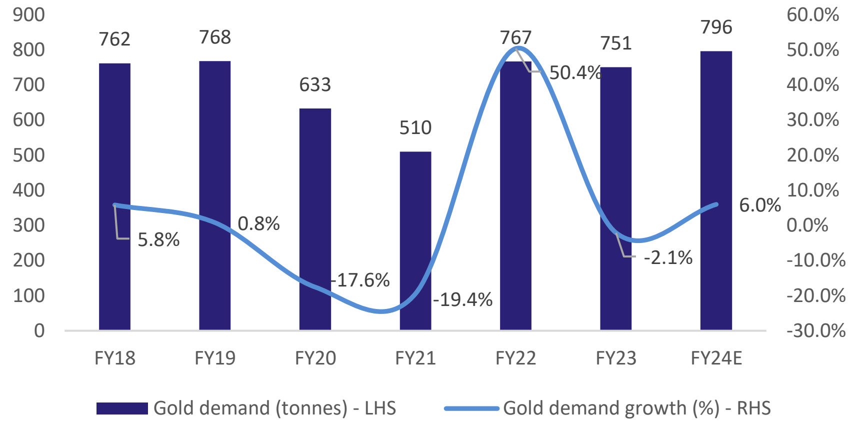
a) In India, it is considered auspicious to purchase gold during festivals, weddings and birth.

b) Gold is considered as an important investment asset in India providing liquidity and hedge against inflation. Total household gold holding in India is estimated to be to 25,000 tonnes (equal to almost 30 years of annual gold imports)
c) Increasing share of working population in the overall population from ~65% in CY13 to ~67% in CY21. Further, as per the Census reports, the proportion of women workforce has increased from 127 mn in 2001 to 150 mn in 2011.
d) Increasing disposable income as there is a positive co-relation between gold consumption and rise in per-capita income.

Growth in domestic gold demand likely to improve from FY24E

After rising in FY20, domestic gold prices increased further by ~30% in FY21 in line with the rise in international prices and rupee depreciation, which had an impact on demand. Sales volumes plunged due to lower discretionary spending following the onset of the pandemic Overall, demand declined ~19% in volume terms in FY21. Volume demand increased in FY22 driven by a low base, higher discretionary spending and the waning impact of the pandemic. The postponement of marriages because of the pandemic implied that pent-up demand manifested in FY22. Overall, volume demand rose 50% in FY22.

Exhibit 25: Gold demand market (tonnes) and Gold price growth (%)



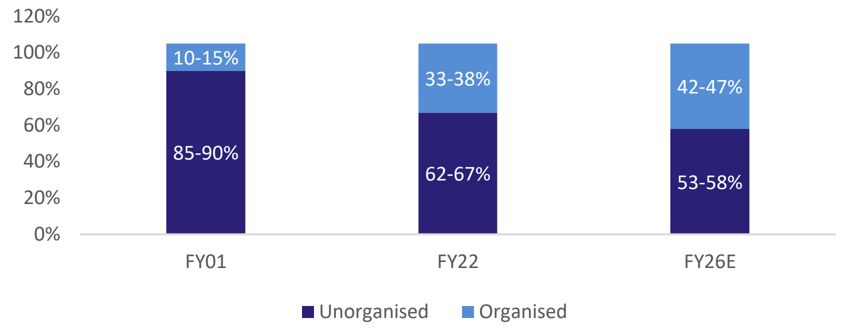
Source: Company RHP, SSL Research

Following are the factors aiding domestic gold demand
a) Pent-up demand
b) Higher discretionary spending
c) Weddings

Organised players likely to gain market share

The retail Indian jewellery industry is highly fragmented with 62-67% of the total market in India comprised of unorganised segment. Organised players face competition from both organised and unorganised sectors of the jewellery retail business. The unorganised segment accounts for majority of the industry, however historically the share of unorganised jewellers in the market has reduced. Going forward as well, though unorganised players will continue to dominate the retail jewellery market, their share is expected to reduce from 62%-67% presently to 53%-58% by FY26E.

Exhibit 26: Organised segment to continue gaining market share in the retail jewellery market



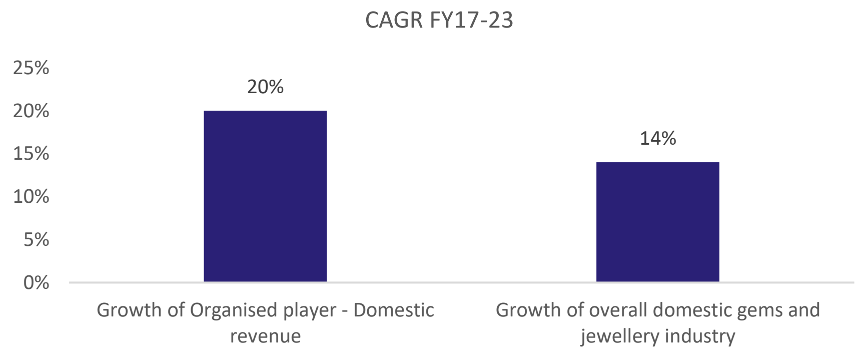
Source: Company RHP, SSL Research

Following factors aid growth of organized jewellery players:

a) Implementation of GST
b) Mandatory Hallmark Unique Identification (HUID) for gold jewellery
c) Widespread presence across cities and locations
d) Focus on quality
e) Better inventory management
f) Emergence of online formats

Organised players grew faster than industry over FY17-23:
Though affected by an industry-wide slowdown in gold demand in FY20 and the pandemic in FY21, organised players continued to grow faster than the industry and gained market share as evident from revenue growth at a 20% CAGR for organised players between FY17 and FY23 compared with ~14% for the industry.

Exhibit 27: Organised players grew at ~20% CAGR vs. ~14% for the industry



Source: Company RHP, SSL Research

Government initiatives to aid Gems & Jewellery sector
Several government initiatives will boost growth of domestic gems & jewellery sector such as:

a) Government's proposal to increase the import duty on silver dore, bars, and articles to 10% to align them with that of gold and platinum in Union Budget 2024.
b) 100% FDI in the Gems & Jewellery sector
c) Demonetisation
d) BIS Hallmarking scheme wherein hallmarking is mandatory for gold jewellery and artefacts
e) Compulsory HUID marking on every piece of Jewellery from FY24 onwards

Company Overview

Senco Ltd. is run by a fourth-generation entrepreneur. The company was launched by late Sankar Sen nearly 30 years ago. Its promoters now comprise Suvankar Sen, and 2 family Trusts i.e., Jay Hanuman Shri Siddivinayak Trust and Om Gaan Ganpateyah Bajrangbali Trust. Senco Gold and Diamonds is a brand owned by Senco Gold Limited and has a legacy of over five decades. The company was originally incorporated as Senco Gold Private Limited in Kolkata, West Bengal in 1994 and converted into a public limited company in 2007 in order to expand its activities in the field of jewellery. Senco has a manufacturing facility located at the Gems and Jewellery Park, Ankurhati in Howrah, West Bengal. The company procures gold via GML, bullion dealers, and gold exchange programme while loose diamonds are mostly procured from reputed diamond manufacturers who are listed as sightholders. The manufacturing of diamond jewellery is carried out either by the skilled Karigars in West Bengal for handmade products or by organised manufacturers in Mumbai, Kerala, Coimbatore, Rajkot or in-house at its manufacturing facility at Ankurhati, Howrah, West Bengal.

It has the largest presence in the eastern region with over 110 company operated and franchise stores, out of the total 145 showrooms as of Sep’23. The company derived ~82% revenues from eastern and north-eastern regions in FY23. Company’s presence in West Bengal gives it access to quality craftsmanship of Bengali karigars. The company also undertakes wholesale exports for its jewellery primarily to Dubai, Malaysia and Singapore. Senco has reported export sales of Rs 70 cr in FY23 representing 2% of the total revenues.

Product Offerings:

Gold	Diamond	Platinum
Earrings	Earrings	Earrings
Pendants	Pendant	Pendant
Necklace	Nosepin	Ring
Bangle	Necklace	Bangle
Ring	Ring	Bracelet
Bracelet	Bangle	Necklace
Chain	Bracelet	Chain
Nosepin	Mangalsutra	
Mangalsutra	Chain	

Gold Offerings





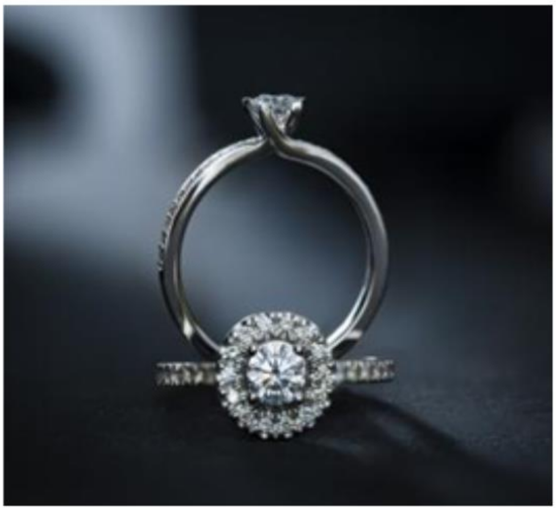
Diamond Offerings





Platinum Offerings





Value Chain/Manufacturing Process of Jewellery

Procurement of Materials	• Senco procures gold bars via Gold Metal Loan (GML)/Outright purchase (including from bullion dealers, banks, etc.)/Gold exchange which comprises of 50%/30%/20% of gold procurement respectively. • Diamonds are procured from diamond traders and sightholders.
Manufacturing Process	• Jewellery manufacturing is carried out by over 170 skilled karigars in and around Kolkata, West Bengal. • Diamond jewellery is further manufactured by organised manufacturers in Mumbai, Kerala, Rajkot, Coimbatore or in-house at manufacturing facility at Howrah.
Quality Assurance	• Gold jewellery is sent through stringent quality control checkpoint which uses XRF machine to check the purity and the finish of the jewellery. Post that, jewellery is sent to a government approved hallmarking centre for hallmarking in accordance with BIS norms. • All loose diamonds, precious and semi-precious stones are tested through SGL (an international diamond testing company) to check the quality.
Inventory Management	• All jewelleries are bar-coded, monitored and controlled manually as well as through ERP. • Optimum showroom stock review is done regularly and the plan is shared with the production department. • Jewellery is also rotated between different showrooms in an effort to increase inventory turnover and avoid accumulation of slow-moving stock at certain showrooms.

Management Overview

Name	Designation	Brief Profile
Mrs. Ranjana Sen	Chairperson and Whole Time Director	• Over 29 years of experience in the jewellery industry. • Associated with the company since incorporation. • Holds a Bachelor's degree in arts from the University of Calcutta.
Mr. Suvankar Sen	Managing Director and Chief Executive Officer	• 17+ years of experience in the jewellery industry. • Awarded CEO of the year for Phygital Technology Impact at the Retail Jewellery MD & CEO Awards, 2022. • Holds PGDM degree from Institute of Management Technology, Ghaziabad
Mrs. Joita Sen	Whole Time Director	• Over 10 years of experience in the designing and marketing. • Associated with the company since 2009. • Holds degree in Master's in Arts from Presidency College, University of Calcutta
Mr. Sanjay Banka	Chief Financial Officer	• Over 30 years of experience in the field of Retail Industry and Telecom Industry in banking, corporate finance, company secretary, business strategy, M&A, taxation, IT implementation, treasury. • Associated with the company since Dec'20. • A fellow member of ICAI, ICSI, AIMA, and CISI, UK
Mr. Surendra Gupta	Company Secretary and Compliance Officer	• Over eight years of experience in the jewellery industry and overall experience of more than 16 years in the field of corporate laws, legal & company secretary. • Associated with the company since May'13. • A member of the Institute of Company Secretaries of India. He holds a bachelors' degree in commerce from the University of Calcutta, L.L.B. degree from Magadh University, master of business laws from National Law School of India University, Bangalore.

Initiate with BUY

We like Senco Gold due to its attractive valuation vs. other peers within the jewellery sector. We believe Senco has huge headroom to grow given its strong legacy in the jewellery business, expanding footprint through a strong and diverse distribution channel, focus on light affordable jewellery with better price point and healthy growth visibility from both its COCO and Franchise stores. Senco has delivered consistent revenue growth, profitability and RoE over the last 3 years. The company's topline and bottomline has grown at a 3-Yr CAGR of 19% and 20% respectively. We expect 24.8%/21.8%/21.6% CAGR in its Revenue/EBITDA/PAT respectively over FY23-26E. **We have valued the company at 35.9x PE multiple based on its FY25E earnings and arrive at a target price of Rs 920, implying an upside potential of 27.5% and assign a BUY rating for the stock.**

Key Assumptions

1. Assumed 15 COCO store additions each and 9/10/10 franchise store additions annually for FY24E/FY25E/FY26E respectively.
2. Assumed gross margins in the range of 14-15% over FY24E-FY26E.
3. Assumed calculated blended interest rate of 6.3% to remain same over FY24E-FY26E.

Key Risks:

1. **Intense competition:** The company operates in a highly competitive and fragmented market as the players in the Indian retail jewellery sector often offer their products at highly competitive prices. Apart from large players from the organized space, the company also faces competition from unorganized players as many of them are well established in their local markets. The competition will continue to increase with aggressive expansion strategies and marketing techniques of branded jewellers from the organized space.

2. **Volatility in gold prices may dampen jewellery demand:** Though an increase in the price of gold may result in an increase in income from inventory held for sales, but a significant increase in the price of gold or a negative outlook on future gold prices could adversely affect company's sales volumes in short term. Major risk of volatile gold price is price fall which can cause inventory loss as well as realization loss. Any significant movement in gold prices can affect company's margins and hence jewellery companies need to adopt appropriate hedging strategies. Though the company has a minimum hedging policy of 51%, it has maintained hedge % of over 80% since the last 2 years. Any inconsistency in hedging may result in margin deterioration.

3. **High working capital requirement:** The company requires significant amount of working capital to drive growth and primarily to finance the purchase of raw materials. In line with industry trend, it uses short term borrowings to fund its gold inventory requirement in 1.2x of Debt/Equity ratio. As of Mar'23, the company had a total working capital sanction limit amounting to Rs 2,073 cr out of which limits utilized are Rs 1,175 Cr. As of Sep 23, the inventory held by the company increased from Rs 1,885 cr in FY23 to Rs 2,061 cr, while the borrowing reduced from Rs 1,175 cr in FY23 to Rs 1,137 cr due to IPO funds utilization. Any further stretching in the working capital cycle can lead to an adverse effect on their liquidity and financial risk profile.

4. **Dependence on skilled designers/Karigars:** The company's business depends on skilled designers to a great extent as a significant portion of the jewellery manufacturing is carried out by experienced craftsmen/karigars from Bengal having dexterity in Bengal's Karigari. Company's inability to attract or retain skilled designers, craftsmen and sales personnel can impact company's reputation and business prospects.

Peer Comparison – FY23

Company Name	Mcap (Rs cr)*	Sales (Rs cr)			CAGR FY23-25E	EBITDA (Rs cr)			CAGR FY23-25E	PAT (Rs cr)			CAGR FY23-25E
		FY23	FY24E	FY25E		FY23	FY24E	FY25E		FY23	FY24E	FY25E	
Titan	3,22,679	40,575	46,236	54,211	15.6%	4,879	5,518	6,730	17.4%	3,250	3,773	4,637	19.4%
Kalyan Jewellers	33,333	14,071	17,485	21,595	23.9%	1,081	1,326	1,616	22.3%	433	618	808	36.6%
Senco Gold	5,600	4,076	5,086	6,426	25.6%	318	351	450	19.0%	161	163	216	16.0%

*as on 08th Dec

Company Name	P/E (x)			EV/EBITDA (x)			P/BV (x)			RoE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Titan	99.3	85.5	69.6	67.8	60.0	49.1	34.7	22.2	18.1	30.7	31.6	28.6
Kalyan Jewellers	77.0	53.9	41.3	33.9	27.2	21.8	9.2	7.9	6.7	12.8	15.8	17.6
Senco Gold	34.8	34.4	25.9	15.1	17.8	14.3	5.9	4.1	3.6	19.0	14.1	14.7

Source: Bloomberg, SSL Research

Financial Statements

Income Statement

Figures in cr.

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**3,534.6**	**4,077.4**	**5,086.5**	**6,425.7**	**7,925.8**
growth (%)	*32.9*	*15.4*	*24.7*	*26.3*	*23.3*
Operating expenses	3,257.4	3,760.8	4,735.5	5,975.8	7,353.4
EBIDTA	**277.2**	**316.6**	**350.9**	**449.9**	**572.4**
growth (%)	*58.1*	*14.2*	*10.9*	*28.2*	*27.2*
Depreciation & amortisation	42.1	45.6	56.1	69.3	82.3
EBIT	**235.1**	**271.0**	**294.8**	**380.6**	**490.1**
Other income	12.8	31.1	34.2	37.7	41.4
Interest paid	70.9	86.1	105.9	121.6	141.1
PBT	**177.0**	**216.1**	**223.2**	**296.7**	**390.4**
Tax	47.9	57.7	60.4	80.2	105.6
Effective tax rate (%)	27.0	27.0	27.0	27.0	27.0
Reported Net profit	**129.1**	**158.4**	**162.8**	**216.5**	**284.8**
Minority interest/Share of JVs	0.0	0.0	0.0	0.0	0.0
Adj. Net profit after minority interest	129.1	158.4	162.8	216.5	284.8
Non-recurring items	-	-	-	-	-
Adj. Net profit after minority interest & exceptional items	**129.1**	**158.4**	**162.8**	**216.5**	**284.8**
growth (%)	*109.9*	*22.7*	*2.8*	*32.9*	*31.6*

Balance Sheet

Figures in cr.

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Cash & Bank balances	278.8	437.6	614.3	599.8	648.2
Inventories	1,391.2	1,885.5	2,226.3	2,636.9	3,144.2
Other current assets	131.2	178.0	220.9	265.4	317.2
Net fixed assets					
Tangible Assets	69.1	84.7	79.6	79.3	82.4
Right of Use Assets	151.6	192.7	240.2	288.7	335.2
Intangible Assets	2.4	2.2	1.5	1.7	1.8
Capital WIP	6.5	13.1	20.9	26.4	13.0
Long Term Investments	0.0	0.1	0.1	0.1	0.1
Other non-current assets	69.1	111.5	160.5	203.6	228.9
Total assets	**2,100.0**	**2,905.2**	**3,564.3**	**4,102.0**	**4,771.1**
Current liabilities	1,227.7	1,744.2	1,992.1	2,320.7	2,703.9
Borrowings	0.4	1.4	1.4	1.4	1.4
Lease Liabilities	145.1	188.4	191.7	193.7	203.1
Other non-current liabilities	0.9	25.7	12.4	14.6	18.0
Total liabilities	**1,374.1**	**1,959.7**	**2,197.6**	**2,530.5**	**2,926.4**
Share capital	53.2	55.9	77.7	77.7	77.7
Reserves & surplus	659.5	876.4	1,289.1	1,493.9	1,767.0
Shareholders' funds	**726.0**	**945.5**	**1,366.7**	**1,571.5**	**1,844.7**
Minority interest	-	-	-	-	-
Total equity & liabilities	**2,100.0**	**2,905.2**	**3,564.3**	**4,102.0**	**4,771.1**

Cash Flow Statement

Figures in cr.

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	177.0	216.1	223.2	296.7	390.4
Depreciation	42.1	45.6	56.1	69.3	82.3
Chg in working capital	-312.3	-347.1	-230.9	-270.8	-352.7
Total tax paid	-38.8	-59.2	-60.4	-80.2	-105.6
Other operating activities	62.0	68.5	59.8	69.8	86.7
Operating CF	**-69.9**	**-76.1**	**47.9**	**84.8**	**101.2**
Capital expenditure	-24.7	-31.1	-45.5	-46.6	-47.8
Other investing activities	-132.4	-166.9	-45.1	-34.5	1.1
Investing CF	**-157.1**	**-198.0**	**-90.5**	**-81.1**	**-46.7**
FCF	**-94.6**	**-107.3**	**2.4**	**38.2**	**53.4**
Equity raised/(repaid)	-	75.0	270.0	-	-
Debt raised/(repaid)	330.5	314.2	94.7	144.1	175.6
Payment of lease liabilities	-17.3	-20.4	-56.7	-66.2	-75.6
Interest paid	-70.4	-83.3	-77.0	-84.5	-94.5
Dividend (incl. tax)	-14.7	-11.4	-11.6	-11.6	-11.6
Other financing activities	-	-	-	-	-
Financing CF	**228.0**	**274.1**	**219.4**	**-18.2**	**-6.1**
Net chg in cash balance	**1.0**	**-0.1**	**176.7**	**-14.5**	**48.4**
Closing cash balance	**9.6**	**9.5**	**186.2**	**171.7**	**220.1**

Important Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Profitability and return ratios (%)					
EBIDTAM	7.8	7.8	6.9	7.0	7.2
EBITM	6.7	6.6	5.8	5.9	6.2
NPM	3.6	3.9	3.2	3.3	3.6
RoE	19.4	19.0	14.1	14.7	16.7
RoCE	18.2	16.3	13.8	14.9	16.5
Per share data (Rs)					
O/s shares (cr.)	5.3	5.6	7.8	7.8	7.8
EPS	24.3	28.4	21.0	27.9	36.7
DEPS	24.3	28.4	21.0	27.9	36.7
CEPS	32.2	36.5	28.2	36.8	47.3
BVPS	136.5	169.3	176.0	202.4	237.5
DPS	1.5	1.0	1.5	1.5	1.5
Valuation ratios (x)					
PE	29.7	25.4	34.4	25.9	19.7
P/BV	5.3	4.3	4.1	3.6	3.0
EV/EBIDTA	16.0	15.1	17.8	14.3	11.4
EV/ Net sales	1.3	1.2	1.2	1.0	0.8
Other key ratios					
D/E (x)	1.2	1.2	0.9	0.9	0.9
Debtors period (days)	3.0	4.0	4.0	4.0	3.0
Creditors period (days)	10.0	13.0	14.0	14.0	15.0
Inventory period (days)	126.0	147.0	148.0	138.0	133.0
Cash conversion cycle (days)	119.0	138.0	138.0	127.0	122.0
Du Pont Analysis - RoE					
NPM (%)	3.6	3.9	3.2	3.3	3.6
Asset turnover (x)	16.0	15.7	16.1	17.5	19.2
Equity Multiplier (x)	0.3	0.3	0.3	0.3	0.2
RoE (%)	19.4	19.0	14.1	14.7	16.7

Source: Company, SSL Research

SBICAP Securities Limited I Monica Chauhan I email: monica.chauhan@sbicapsec.com

SBICAP Securities Limited

(CIN): U65999MH2005PLC155485

SEBI Registration No.: Stock Broker: INZ000200032 | DP Registration No.: IN-DP-314-2017| Research Analyst : INH000000602
Portfolio Manager: INP000004912 | IRDA : CA0103 | PFRDA Registration No: POP 26092018

Registered & Corporate Office: Marathon Futurex, Unit No. 1201, B-Wing, 12th Floor, N M Joshi Marg, Mafatlal Mill Compound, Lower Parel East, Mumbai 400013

For any information contact us: **(022) 6854 5555**

E-mail: helpdesk@sbicapsec.com I Web: www.sbisecurities.in

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Name	**Qualification**	**Designation**
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	C.A.	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Sweta Padhi	MBA (Finance)	Research Analyst - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Pratik Patni	BSc (Biotech Entire)	Research Analyst- Equity Derivatives
Ghanshyam Gupta	MBA (Finance)	Research Analyst- Currency Derivative
Sagar Peswani	B.Tech (ECE)	Research Associate - Equity Technicals
Uday Chandgothia	B.Tech (Mech), MBA (Finance)	Research Associate - Equity Fundamentals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

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