

Senco Gold Limited

Company Overview:

Senco Gold Ltd. is a pan-India jewellery retail player with a history of more than five decades. It is the largest organised jewellery retail player in the eastern region of India based on number of stores and among eastern India based jewellery retailers. The company primarily sells gold and diamond jewellery as well as jewellery made of silver, platinum, precious and semi-precious stones, etc. The products are sold under the brand of 'Senco Gold & Diamonds' through multiple channels which includes owned stores, franchisee stores and various online platforms. The company has 75 Company Operated Showrooms and 61 Franchisee Showrooms as of March'23.

Key Highlights:

Strong legacy of over 5 decades ensures customer confidence: The company has a track record of more than 5 decades in the jewellery business that 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.

Largest jewellery retail player in Eastern region: As per the CRISIL report, Senco Gold is the largest organised jewellery retail player in the eastern region of India based on number of stores and among eastern India based jewellery retailers. From Kolkata, West Bengal, the company has strategically expanded its presence to 13 states across India. As of Mar'23, the company has a total of 136 showrooms located across 96 cities and towns in India with an aggregate area of ~4,09,882 sq. ft.

Focus on light, 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 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 1,20,000 designs for gold jewellery and more than 69,000 designs for diamond jewellery.

Valuation: At upper band, the business is trading at a P/E multiple of 15.5x of its FY23 EPS. 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. With its strong legacy in the jewellery business, the company is likely to grow its market position in other parts of the country.

Issue Details	
Date of Opening	04 th July 23
Date of Closing	06 th July 23
Price Band (Rs)	301-317
Issue Size (Rs cr)	405 (Fresh Issue – Rs 270 cr; OFS – Rs 135 cr)
No. of shares	1,34,55,148 – 1,27,76,025
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,351 – 2,462
BRLMs	IIFL Securities, Ambit Pvt. Ltd., SBI Capital Markets Ltd.
Registrar	Kfin Technologies Ltd.
Bid Lot	47 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%
Employee Reservation	NA
Employee Discount	NA

Objects of Issue	
	(Rs Cr.)
Funding working capital requirement	196.0
General corporate purposes	-

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	5,31,83,712	76.9
Public & Others	1,59,62,094	23.1
Total	6,91,45,806	100

Post Issue @Lower Price Band		
	No. of Shares	%
Promoter & Promoter Group	4,86,98,662	62.3
Public & Others	2,94,17,243	37.7
Total	7,81,15,905	100

Post Issue @Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	4,89,25,037	63.0
Public & Others	2,87,38,119	37.0
Total	7,76,63,156	100.0

Source: RHP, SSL Research

Risk Factors

- 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 and many of them are well established in their local markets.
- The company requires significant amount of working capital to drive growth and primarily to finance the purchase of raw materials. As of Mar'23, the company has a total working capital sanction limit amounting to Rs 2,073 cr.
- The company requires various approvals, permits and licenses in the ordinary course of business and any delay to obtain them may affect its business operations.
- The company's business depends on its ability to attract and retain skilled designers, karigars, craftsmen and sales personnel as the level and quality of sales personnel and customer service are key competitive factors in the jewellery retail industry.
- 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.
- The company has not registered certain trademarks which may adversely affect its competitive business position.

Growth Strategy

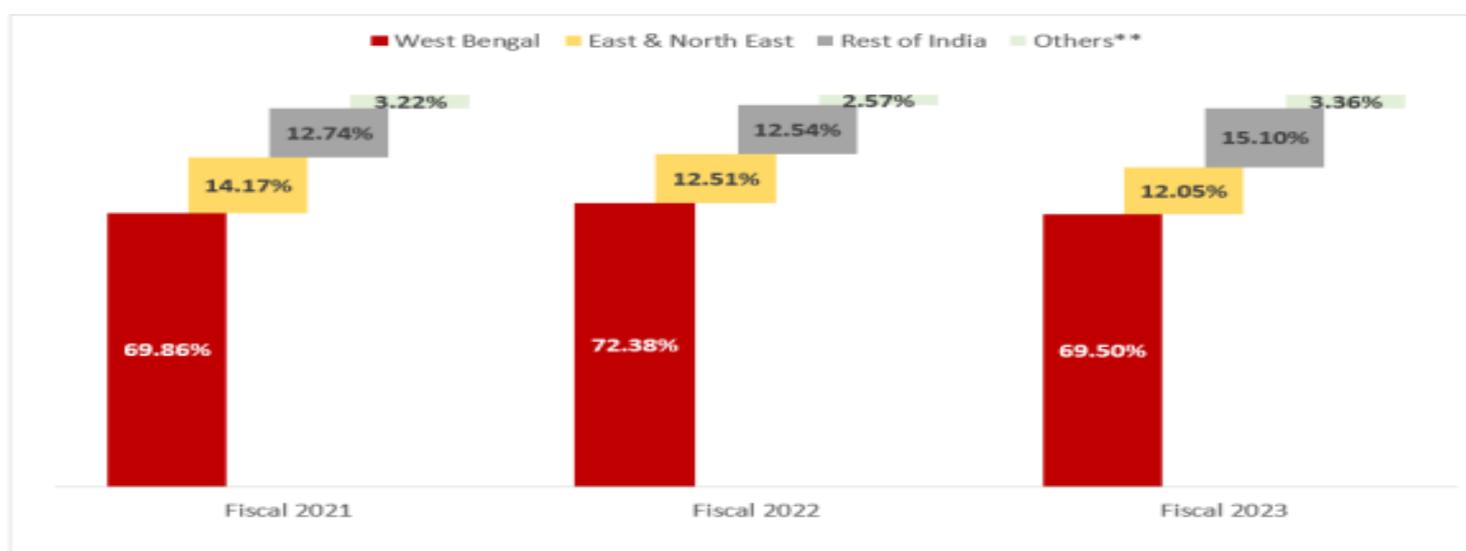
- To further expand its presence through a strong and diverse distribution channel.
- To focus on increasing the overall operating margins by adapting optimal product mix.
- To continue to invest in marketing and brand building initiatives through hyperlocal strategy.
- To focus on catering to the younger generation and the upwardly mobile in India.
- To leverage technology to enhance operational efficiency, customer experience and delight.

Revenue from Operations

Particulars	FY21		FY22		FY23	
	Revenue (Rs cr)	% of Total revenue	Revenue (Rs cr)	% of Total revenue	Revenue (Rs cr)	% of Total revenue
Sale of products						
Gold jewellery	2,445.0	92%	3,235.1	92%	3,657.1	90%
Diamond and precious/semi-precious stones	134.5	5%	188.6	5%	276.1	7%
Silver jewellery and articles	20.7	1%	33.8	1%	39.1	1%
Platinum jewellery	46.9	2%	57.0	2%	83.0	2%
Fashion jewellery	5.0	0%	6.8	0%	9.7	0%
Novelty and accessories	2.6	0%	4.1	0%	4.8	0%
Other operating revenue						
Franchisee fees	5.7	0%	9.2	0%	7.7	0%
Total	2,660.4	100%	3,534.6	100%	4,077.4	100%

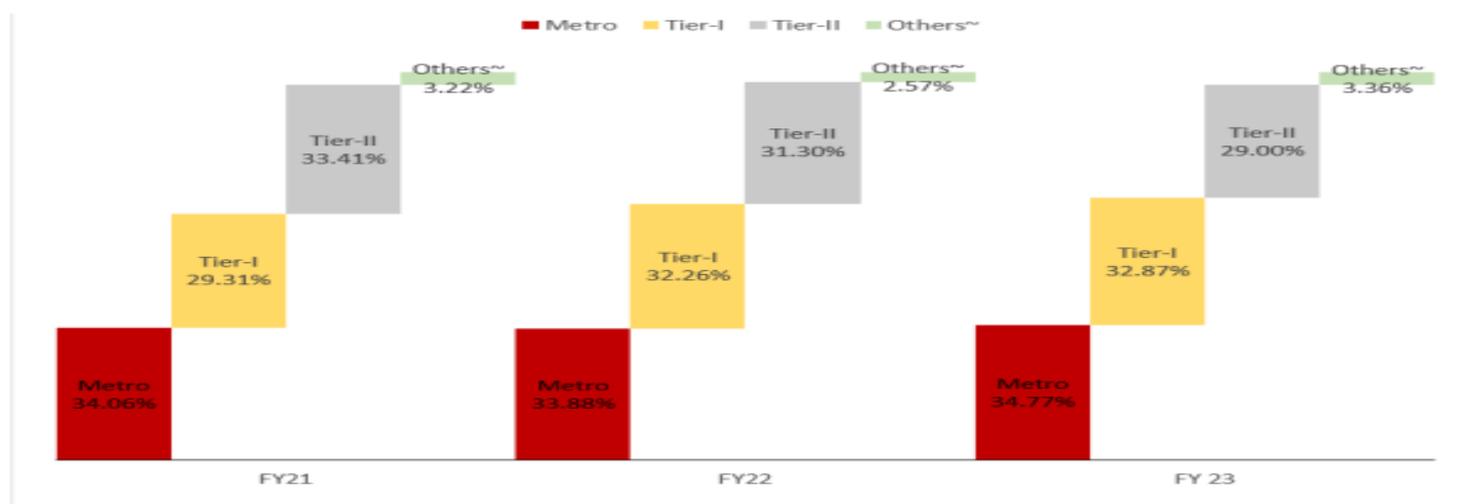
Source: RHP

Revenue Split by Region



**Others constitutes exports, DG Gold, DG Silver, corporate and e-commerce sales.

Revenue Split by Location



~Others constitutes exports, DG Gold, DG Silver, corporate and e-commerce sales.

Source: RHP

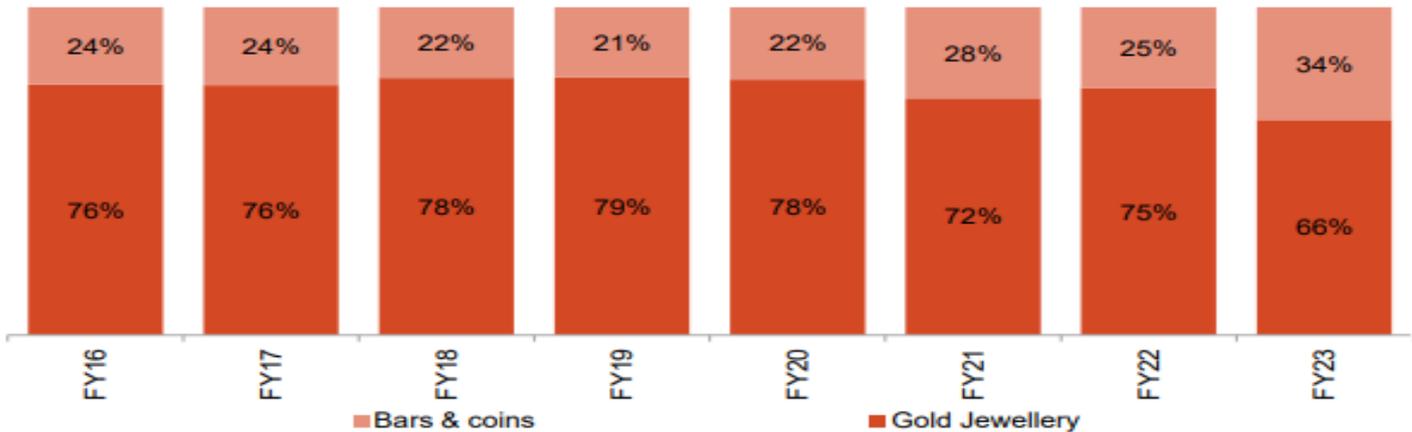
Industry Overview

Indian gems and jewellery industry market estimated at ~Rs 4,700 billion in FY23

The domestic gems and jewellery market was roughly ~Rs 4,700 billion in FY23 with gold jewellery dominating the overall market with a 66% share. Domestic jewellery demand has historically been dominated by consumption. Consumption of jewellery studded with diamond, pearls and other precious and semi-precious stones, has also been rising over the past five years but remains significantly lower than that of gold jewellery. Growing demand for studded jewellery could be attributed to changing consumer preferences, a rising presence of organised players and aggressive advertising campaigns.

Domestic gems and jewellery market split

(%)

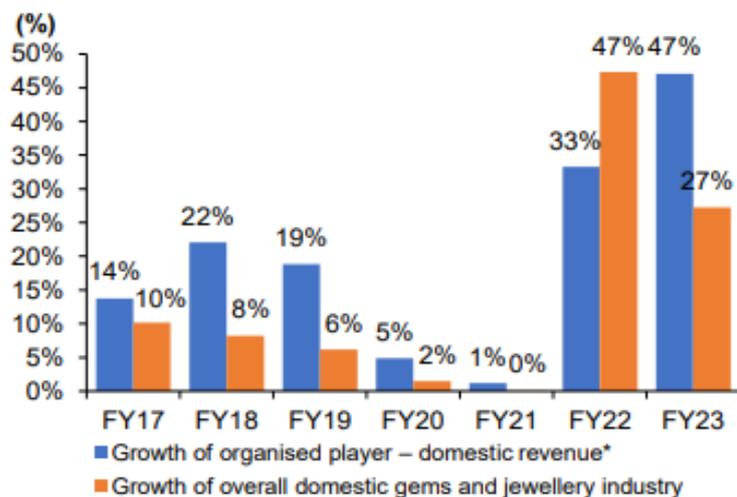


Source: RHP

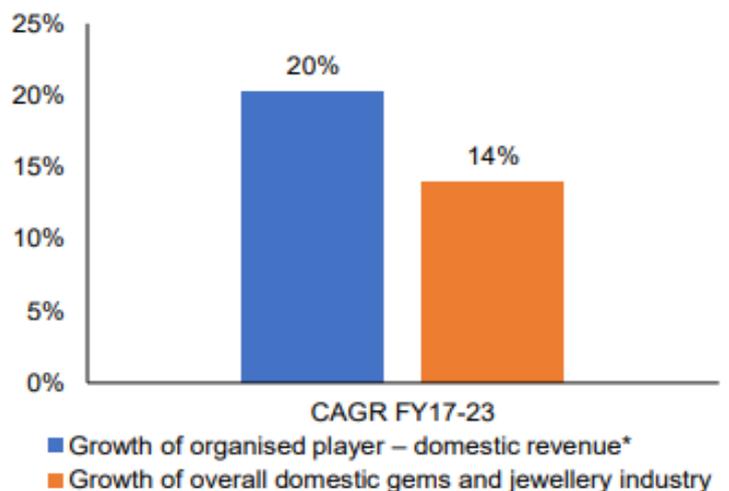
Organised players grew faster than the industry over FY20-23

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.

Organised listed players grew faster than the industry in the past six years



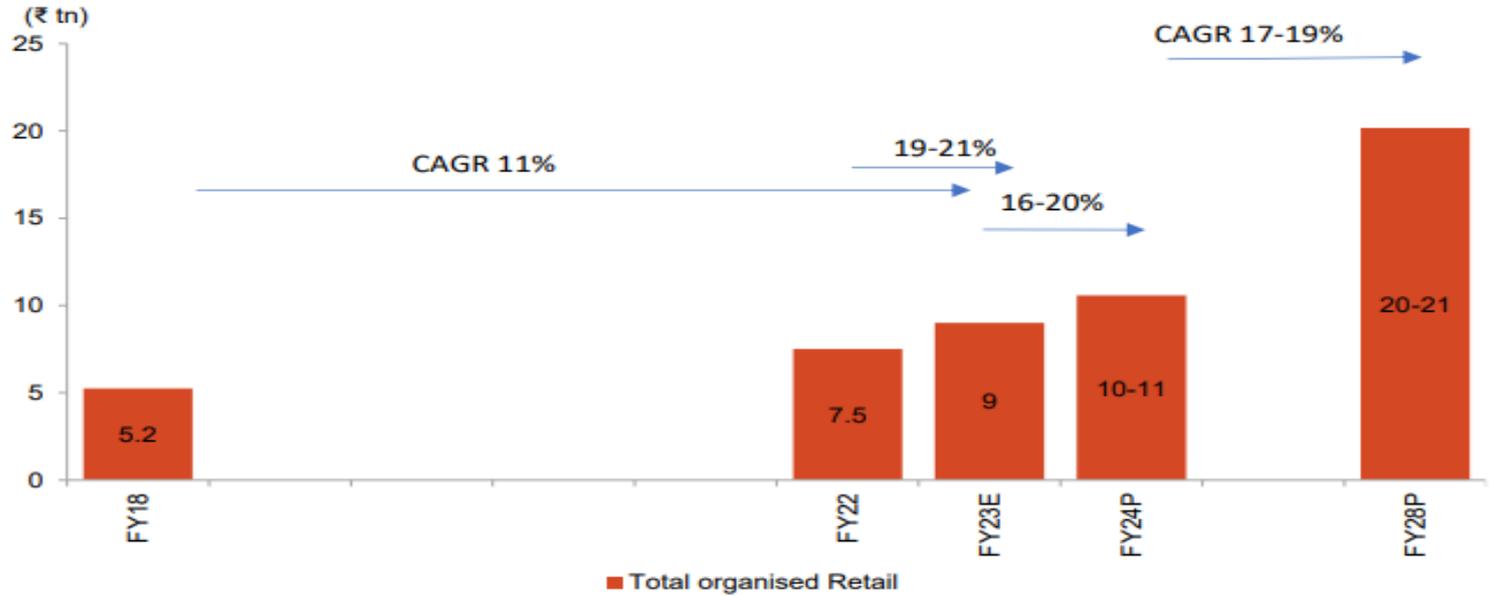
Organised players grew at ~20% CAGR vs ~14% for the industry



Source: RHP

*organised listed players considered (in both charts) Titan (jewellery division), TBZ and Thangamayil; domestic demand includes gold jewellery and coins

Organised retail growth to pick up over medium to long term

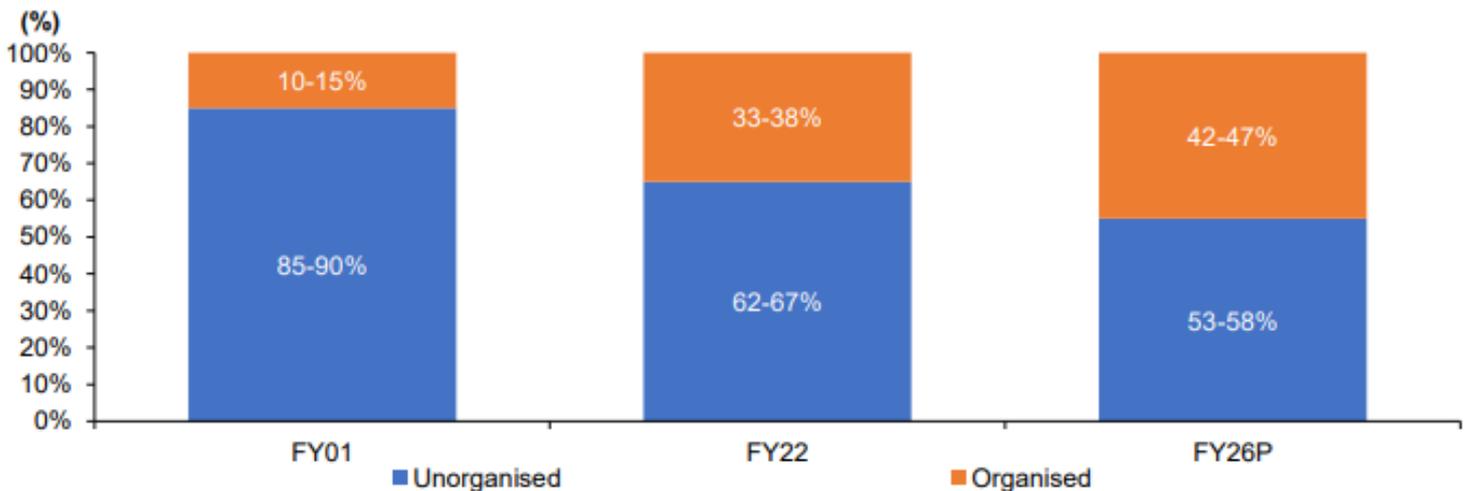


Source: RHP

Unorganised players dominate, but organised rapidly gaining market share

The jewellery retailing industry in India has traditionally been dominated by family-owned small-size standalone stores, which are operated largely on trust and referred to as unorganised players. Organised players face competition from both the organised and unorganised sectors of the jewellery retail business. Until about two decades ago, these standalone jewellers accounted for ~90% of the domestic industry. Though this segment continues to account for a majority of the industry even today, the organised segment has grown rapidly in recent years and gained substantial market share (33-38% as of FY22). Independent jewellery showrooms and small family-run operations constitute the rest of the market. CRISIL MI&A Research expects the organised segment to continue to gain market share and account for 42-47% by FY26. Changing consumer preferences, i.e., increasing demand for diamond-studded and light-weight jewellery, and a greater variety of designs augur well for the organised players, which have a wider product range and better design capabilities.

Organised segment to continue gaining share in the retail jewellery market

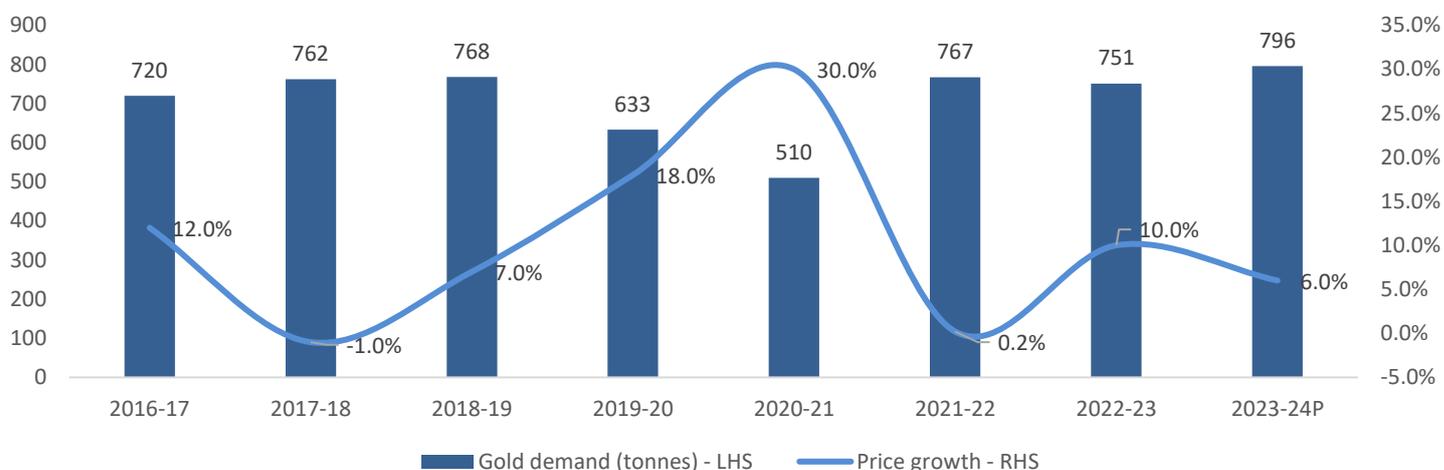


Source: RHP

Demand for domestic gold market to improve in FY24

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, with stores remaining shut for most of the first quarter, and intermittent lockdowns in some states in the second quarter. The festive season led to an improvement in demand during the third quarter, which held up in the last quarter too, due to the previous year’s low base, wedding purchases and an improvement in consumer sentiment. 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.

Gold demand to improve in FY24

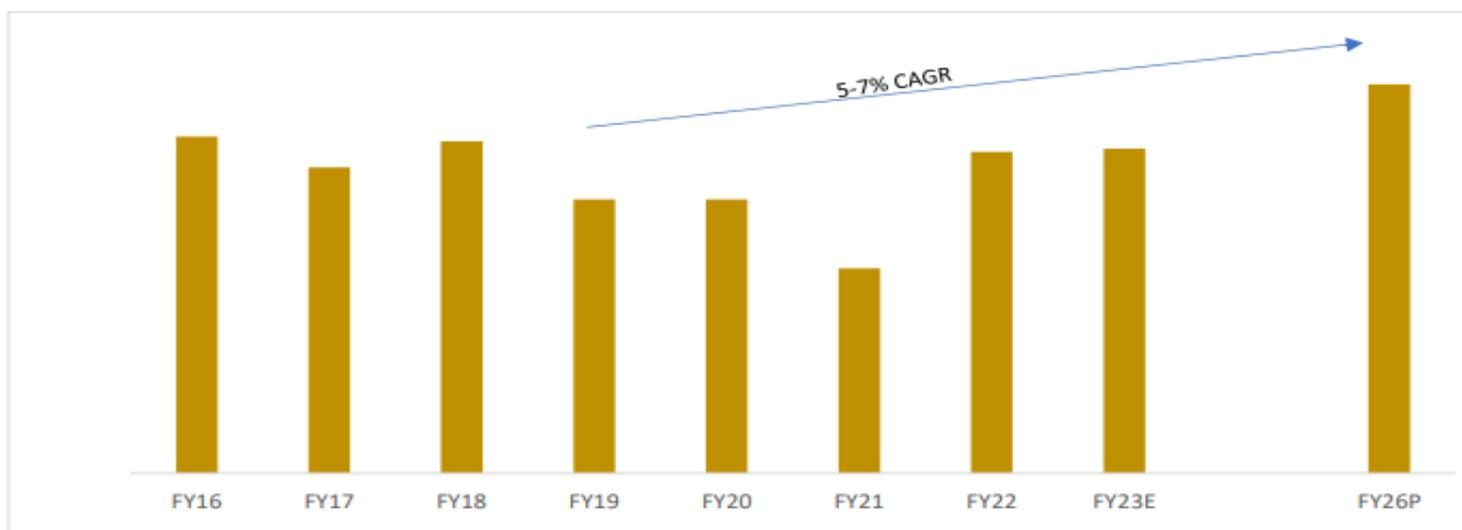


Source: RHP, SSL Research

Gold jewellery demand in volume terms will likely improve over the medium term

A low base, pent-up demand, and more weddings are likely to boost jewellery demand in the near term. Over the long term, improving economic growth, rising urbanisation, and increasing disposable income levels are expected to aid growth. The formulation of a comprehensive gold policy announced during the Union Budget 2018-19 and mandatory hallmarking are also expected to be positive for the industry, especially for organised players in the long term. CRISIL MI&A Research expects consumption demand for gold to increase at a strong pace. However, inflation and geopolitical events are likely to impact demand.

Trend in gold jewellery demand (volume)



Source: RHP

Financial Snapshot

Particulars (Rs cr)	Post Issue	
	FY23	
	Price Band	
	301.0	317.0
Net Sales	4,077.4	4,077.4
Total Income	4,108.5	4,108.5
EBIDTA	316.6	316.6
PAT	158.5	158.5
Equity Share Capital	78.1	77.7
No. of Equity Shares	7.8	7.8
Face Value	10.0	10.0
EPS	20.3	20.4
CMP	301.0	317.0
Cash and Bank	707.6	707.6
Debt	1,177.2	1,177.2
Market Cap	2,351.3	2,461.9
BV per share (Rs)	155.6	156.5
PE (x)	14.8	15.5
P/BV (x)	1.9	2.0
Enterprise Value	2,820.9	2,931.5
Mcap/Sales (x)	0.6	0.6
EV/Sales (x)	0.7	0.7
EV/EBIDTA (x)	8.9	9.3
EBITDA Margins (%)	7.8	7.8
Net Margins (%)	3.9	3.9
ROE (%)	16.3	16.3
ROCE (%)	13.6	13.6
Debt/Equity (x)	1.0	1.0
Net worth	1,215.5	1,215.5

Source: RHP, SSL Research (Post Issue)

Particulars (Rs cr)	FY21	FY22	FY23
Net Sales	2,660.4	3,534.6	4,077.4
EBITDA	175.3	277.2	316.6
Net Profit	61.5	129.1	158.5
EBITDA Margin (%)	6.6	7.8	7.8
Net Profit Margin (%)	2.3	3.7	3.9

Source: RHP, SSL Research

Peer Comparison – FY23

Particulars (Rs cr)	Senco Global Ltd*	Titan Co. Ltd.	Kalyan Jewellers Ltd.	Thangamayil Jewellery Ltd.	Tribhovandas Bhimji Zaveri Ltd.
CMP (Rs)	317.0	3,028.1	142.0	1,496.6	85.0
Market Cap. (Rs cr)	2,461.9	2,68,830.5	14,621.6	2,095.2	569.5
Sales	4,077.4	40,575.0	14,071.5	3,152.6	2,393.6
EBITDA	316.6	4,879.0	1,080.8	152.9	116.3
Net Profit	158.5	3,274.0	431.9	79.7	40.2
EBITDA Margin (%)	7.8	12.0	7.7	4.9	4.9
RoE (%)	16.3	30.7	13.5	22.4	7.4
RoCE (%)	13.6	25.1	12.0	16.8	8.6
PE (x)	15.5	82.7	33.8	25.7	14.1

Source: RHP, SSL Research for Senco Gold

*The data is based on FY23 post-issue market cap @ upper price band.

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