August 25, 2021 (Revised)

Senco Gold Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short -term – Fund Based Working Capital	625.00	750.00	[ICRA]A-(Stable)/[ICRA]A2+ reaffirmed
Fixed Deposit Programme	115.00	115.00	MA(Stable) reaffirmed
Total	**740.00**	**865.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings considers the improvement in revenues of Senco Gold Limited (SGL/company) in FY2021, supported by higher gold realisations and increasing share of high-margin non-gold jewellery, despite a decline in sales volume owing to the pandemic-induced lockdown in its key markets. The operating margins were, however, impacted due to higher cost of gold procurement and a substantial commodity hedging loss in FY2021. As per the management, the commodity hedging loss has substantially been recovered in the current financial year. A decline in the operating margin resulted in some moderation in the debt coverage indicators and the interest cover stood at 2.8 times in FY2021 (when adjusted for Ind AS lease liabilities adjustments, the interest cover stood at ~2.9 times in FY2021). Going forward, however, the same is expected to improve with better inventory control practices adopted by the management. ICRA notes that SGL was able to increase its revenues with lower inventory volumes and going forward this trend is likely to continue. The ratings continue to favourably factor in the vast experience of the promoters in the retailing business of jewellery made of gold, silver, platinum and diamond, long presence and brand recall of SGL in West Bengal and eastern India and a shift of demand towards organised players, supported by greater push for formalisation of the industry. SGL's operational profile is supported by its rich experience in gold and diamond sourcing and retailing operations, focus on light-weight gold and diamond jewellery, a diversified mix of owned and asset-light franchise operated stores and improving geographical diversification with plans to widen its pan-India presence.

The ratings are, however, constrained by the high working capital intensity of operations with large inventory holding requirements, which result in higher dependence on working capital loans, keeping total outside liabilities (TOL) and debt coverage indicators at moderate levels. SGL is also exposed to inherent regulatory risks in the industry, which impacted the retailers' performance in the past, a fragmented industry structure resulting in competitive pricing, and a cautious lending environment. While SGL is also exposed to geographical concentration risks with 64% of revenues coming from West Bengal, the concentration risk has reduced over the years after setting up of stores outside West Bengal in the recent years, with focus on pan-India presence.

The Stable outlook reflects ICRA's opinion that SGL will continue to generate healthy cash flows, relative to its debt service obligations and will also continue to benefit from the extensive experience of the promoters and established market position of SGL in the jewellery retailing business, particularly in West Bengal.

Key rating drivers and their description

Credit strengths

Established market presence along with strong brand recall in West Bengal and eastern India – Incorporated in 1994, SGL was set up by Late Shaankar Sen and is now managed by his son, Mr. Suvankar Sen. Supported by the promoters' rich experience in the gems and jewellery industry and a strong reputation of the Senco brand, SGL has a dominant market position in gold and diamond jewellery retail business in eastern India, especially West Bengal.

Strong operational profile – While the jewellery retailing industry in India remains fragmented and SGL faces competition from both organised and unorganised players, SGL's strong brand recall, product quality and creative designs (especially handcrafted jewellery) helped in strengthening its market position. SGL largely caters to the middle-class consumer base, whose preferences have shifted towards light weight and hand-made jewellery in the recent years. Given its strong design team, ability to identify taste and preferences of consumers, and long association with skilled artisans, SGL manages to hold competitive edge over its peers.

Steady revenue growth and profit margins, notwithstanding moderation in margins in FY2021 - With a steady addition of new stores in the recent years (including five new stores in FY2021), SGL's operating income grew by 8% (CAGR) during FY2017-21. Despite adverse demand conditions in FY2021, SGL was able to increase its revenues by ~10%, supported by high gold prices and increasing share of high-margin non-gold jewellery. Focus on cost control measures, increasing share of non-gold jewellery sales, and higher usage of low-cost gold metal loans (GML) had resulted in a gradual expansion of operating margins, up from 6% in FY2017 to 9.4% in FY2020. However, the operating margins moderated to ~7.6% in FY2021 owing to high cost of gold procurement and a substantial commodity hedging loss. Going forward, however, the same is expected to improve with better inventory control practices adopted by the management.

Credit challenges

High working capital intensity leading to moderate debt coverage indicators – Jewellery retailing is highly working capital intensive in nature given the need to display varied designs of jewellery to its customers. SGL generally maintains an inventory of ~4-4.5 months, on an average, across its stores, depending on the footfall and the stock holding surge during the festive season. While the inventory volumes have reduced, the inventory days was at ~159 days in end-March-2021 due to higher valuation of the inventory amid rising gold prices. With a large stockholding requirement, the dependence on working capital loans remains high, which along with a decline in margins resulted in moderate debt coverage indicators with an interest cover of ~2.8 times in FY2021. Going forward, the company's ability to improve its margins, while growing volumes over a modest working capital cycle, will be the key determinants of its financial risk profile.

Exposure to geographical concentration risks – At present, SGL has 60 company owned stores along with ~52 franchisee stores. Out of the company-owned stores, ~47% of stores are in West Bengal, which contributed ~64% to its revenues in FY2021. Thus, the company is exposed to geographical concentration risks. However, such risk has reduced over the years and is likely to decline further with the company's plans to add new stores outside West Bengal.

Exposure to regulatory risks – The jewellery retail industry has been witnessing increased regulatory intervention, which impacted the operating environment and consequently the performance of jewellers. Measures like limited access to gold metal loans, mandatory permanent account number disclosure requirement for purchases above Rs. 2 lakh, limitation on jewellery saving schemes, demonetisation, implementation of the Goods and Service Tax etc. affected both demand and supply in the past. Increasing supervision and cautious lending environment further restricted fund flows to the sector. However, SGL enjoys a healthy relationship with banks and has been able to increase its working capital limits by ~Rs. 75 crore in the last 3 years, and a further enhancement is under consideration with banks.

Liquidity position: Adequate

SGL's liquidity position is **adequate** with reasonable unencumbered cash and bank balances and negligible long-term debt. However, the average working capital utilisation, as a percentage of the sanctioned limits, remained high at ~88% in FY2021, notwithstanding an improvement from ~93% in FY2019. The enhancement of working capital limits is also under consideration with banks, which once sanctioned, will provide some cushion to its liquidity position. Additionally, ICRA notes that SGL had not availed any moratorium from banks for its debt servicing obligations.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to significantly increase its sales volumes while maintaining the profit margins and inventory levels. Specific triggers include an interest cover of more than 5 times.

Negative factors – The ratings could be downgraded if a substantial increase in the working capital requirements results in a substantially high level of debt, leading to a deterioration of the capital structure and debt coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in Gold Jewellery - Retail Industry](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Senco Gold Limited was promoted by Late Shaankar Sen as Senco Gold Private Limited in 1994. It was converted into a public limited company in 2007. The promoters have an experience in the jewellery retailing business. SGL has 60 company operated showrooms and 52 franchise showrooms in West Bengal, Uttar Pradesh, Odisha, Jharkhand, Karnataka, Maharashtra, Assam, Bihar, Delhi, Haryana, Chhattisgarh, Telangana and Tripura.

Key financial indicators

	FY2020	FY2021 Provisional
Operating Income (Rs. crore)	2421.6	2663.5
PAT (Rs. crore)	90.9	61.5
OPBDIT/OI (%)	9.4%	7.6%
PAT/OI (%)	3.8%	2.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.6
Total Debt/OPBDIT (times)	3.1	3.4
Interest Coverage (times)	3.6	2.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: CRISIL has moved the rating on SGL's fixed deposits to ISSUER NOT COOPERATING category as per its PR dated January 6, 2020 which remains the same as per PR dated January 30, 2021. The reason provided was non-furnishing of information for monitoring of ratings.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					Aug 25, 2021	Sep 18, 2020	Jul 20, 2020	Jul 17, 2019	May 2, 2019	
1	Fund Based Working Capital	Long-term/Short term	750.0	531.6	**[ICRA]A- (Stable)/ [ICRA]A2+**	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Fixed Deposit Programme	Medium-term	115.0	72.4	**MA (Stable)**	MA (Stable)	MA (Stable)	MA (Stable)		-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Working Capital	Simple
Fixed Deposit Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
Indian Bank	Long-term/ Short - term – Fund Based Working Capital	-	-	-	114.0	[ICRA]A-(Stable)/ [ICRA]A2+
State Bank of India		-	-	-	74.0	
Kotak Mahindra Bank		-	-	-	56.0	
Axis Bank		-	-	-	62.0	
Yes Bank		-	-	-	40.0	
HDFC Bank		-	-	-	79.0	
South Indian Bank		-	-	-	20.0	
DCB Bank		-	-	-	40.0	
IDFC Bank		-	-	-	65.0	
Bandhan Bank		-	-	-	10.0	
Indian Overseas Bank		-	-	-	65.0	
Unallocated Limits		-	-	-	125.0	
NA	Fixed Deposit Programme	-	-	-	115.0	MA(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

Corrigendum

Details of lenders have been updated in Annexure 1

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 111
sumit.jhunjhunwala@icraindia.com

Maitri Vira
+91 33 7150 1103
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches