July 17, 2019

Senco Gold Limited: MA(Stable) assigned

Summary of rating action

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fixed Deposit Programme	115.00	MA(Stable) Assigned
Fund-based Working Capital Facilities	550.00	[ICRA]A- (Stable) outstanding
Total	**665.00**	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors 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 Senco Gold Limited (SGL) in East India and favourable demand potential of 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, diversified mix of owned and asset-light franchise operated stores and improving geographical diversification with plans to widen its pan-India presence. SGL's financial profile is characterised by a stable growth in revenues and earnings (with 14% and 19%, CAGR respectively during the period FY2014-19), comfortable return on capital employed (RoCE) and moderate debt coverage indicators.

The rating assigned also considers the inherent regulatory risks in the industry, which had impacted retailers' performance in the past, a fragmented industry structure resulting in competitive pricing environment, a cautious lending environment and SGL's moderate liquidity profile. While SGL is also exposed to geographical concentration risks with 64% of its showrooms located in West Bengal, the concentration risk has declined over years with setting up of stores outside West Bengal in the recent years, with focus on pan-India presence. Going forward, SGL's ability to sustain its sales volume and increase profits from both existing and new stores, while improving the working capital cycle and liquidity profile, would be the key rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that SGL will continue to benefit from the extensive experience of the promoters and established market position of the SGL in the jewellery retailing business, particularly in West Bengal. The outlook may be revised to Positive if substantial growth in sales volume from existing and new stores increases the profitability, and better working capital management strengthens the company's liquidity position. The outlook may be revised to Negative with sharp deterioration in financial profile of the company.

Key rating drivers

Credit strengths

Established market presence and strong brand recall in West Bengal - Incorporated in 1994, SGL is managed by Mr. Sankar Sen, Mr. Suvankar Sen and Ms. Ranjana Sen. Supported by the promoters' rich experience of over five decades in the gems and jewellery industry and strong reputation created for 'Senco' brand, SGL commands a dominant market position in gold and diamond jewellery retail business in 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 has helped in strengthening the market position. SGL largely caters to the middle-class consumer base, whose preferences have increased towards the 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-standing association with the skilled artisans, SGL manages to hold competitive edge over its peers. This apart, with demonetisation and Goods and service tax (GST) favouring the organised trade, SGL has been a key beneficiary, as exhibited by the shift in average ticket size. At present SGL has 103 stores, out of which ~51% is company operated, and rest is through franchise stores, most of which being franchisee-owned and operated. Also, of the 103 showrooms, around 64% of stores are in West Bengal, which contributes over ~70% of revenues. Concentration towards single geography has been gradually reducing over years and is likely to decline further with the company's plans to add new stores outside of West Bengal. Improving diversification, strong brand and asset-light business model insulates SGL from business-related risks and support SGL's long-term outlook.

Healthy financial profile - The company's financial profile is strong, supported by healthy return indicators and moderate debt coverage indicators. With steady addition of new stores in recent years, SGL's operating income grew by 14% (CAGR) during the period FY2014-19. Increased scale of operations (mostly through asset-light franchise mode), focus on cost control measures and higher usage of low-cost gold metal loans (GML) had resulted in gradual expansion of operating and net margins, up from 5.3% and 2.8% respectively in FY2014 to 6.8% and 3.0% in FY2019. SGL's RoCE was comfortable at 16.1% in FY2019, aided by improved operating profits and asset-light store expansion. The capital structure and coverage indicators are moderate with gearing of 1.2 times as of end-FY2019 and interest cover of 3.9 times in FY2019. While intense competition and limited value addition is likely to keep operating margins range-bound, increased proportion of GML, which attract a lower interest rate, shall support overall cash flows going forward. That said, SGL's liquidity profile is moderate, characterised by ~93% average utilisation of working capital (against sanctioned lines). SGL's ability to maintain optimal inventory levels amidst store expansion plans, improve liquidity position and debt protection metrics will be key rating sensitivities.

Favourable demand outlook for organised jewellery retailers over the medium term - Jewellery consumption in India has been traditionally driven by the strong cultural affinity for gold, with the metal being the preferred form of jewellery. Stable demand during wedding and festive seasons is likely to keep the sentiments strong. While the demand-supply metrics remain vulnerable to any policy initiatives of the Government, these regulations have resulted in faster formalisation of the sector, thus supporting organised retailers like SGL.

Credit challenges

High working capital intensity of operations – Jewellery retailing is highly working capital intensive in nature given the need to display varied designs of jewellery to its customers. SGL generally maintains inventory of 3-6 months across stores depending on the footfall and the stock holding spikes during festive season. SGL's inventory days improved to 143 days as on March 31, 2019 (from 154 days as on March 31, 2018). However, with large stock holding requirement, the dependence on working capital loans remains high; the retailer's ability to improve the operating cycle will be critical for improving the working capital intensity and liquidity profile.

Exposure to geographical concentration risks - At present, SGL has 103 showrooms, out of which around 64% of stores are located in West Bengal, which contributes over ~70% of revenues. Thus, the company is primarily a regional player, with presence limited to West Bengal, which exposes it to geographical concentration risks. However, with plans to add new stores in and outside of West Bengal, the market presence of the company is expected to increase going forward.

Exposure to regulatory related 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, limitation on jewellery saving schemes, demonetisation, implementation of the Goods and Service Tax etc., had its effect on both demand and supply in the past. Increasing supervision and the cautious lending environment affected the fund flows to the sector.

Liquidity Position

SGL's liquidity position is moderate with reasonable unencumbered cash and bank balances and negligible long-term debt. While the average working capital utilisation as a percentage of sanctioned limits remained high at ~93% during FY2019, the company has been increasing the usage of GML, resulting in interest cost savings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Gold Jewellery Retail Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company.

About the company

Senco Gold Limited was promoted by Mr. Sankar Sen as Senco Gold Private Limited in 1994. It was converted into a public limited company in 2007. The promoters have an experience of over five decades in jewellery retailing business. SGL has 53 company operated showrooms and 50 franchise showrooms in West Bengal, Uttar Pradesh, Odisha, Jharkhand, Karnataka, Maharashtra, Assam, Bihar, Delhi, Haryana, Chhattisgarh, Telangana and Tripura.

In FY2019, SGL reported a net profit of Rs. 74.64 crore on an operating income of Rs. 2,485.46 crore against a net profit of Rs. 72.34 crore (including an exceptional gain of Rs. 17.37 crore) on an operating income of Rs. 2,209.69 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	2,209.69	2,485.46
PAT (Rs. crore)	72.34*	74.64
OPBDIT/OI (%)	6.74%	6.81%
RoCE (%)	18.33%*	16.14%
Total Debt/TNW (times)	1.47	1.21
Total Debt/OPBDIT (times)	3.92	3.33
Interest coverage (times)	3.21	3.93

*Includes an exceptional gain of Rs. 17.37 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Date & Rating May 2019	Date & Rating in FY2019 -	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Fixed deposit programme	Medium Term	115.00	NA	**MA(Stable) assigned**				
2	Fund-based Working Capital Facilities	Long Term	550.00	NA	**[ICRA]A- (Stable) outstanding**	[ICRA]A- (Stable) assigned	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposit programme	115.00	-	-	115.00	MA(Stable)
NA	Fund-based Working Capital Facilities	NA	NA	NA	550.00	[ICRA]A- (Stable)

Source: Senco Gold Limited

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About ICRA Limited:

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